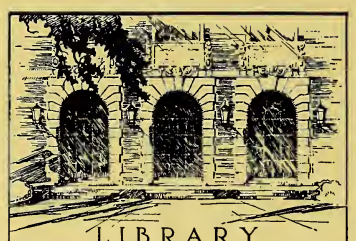

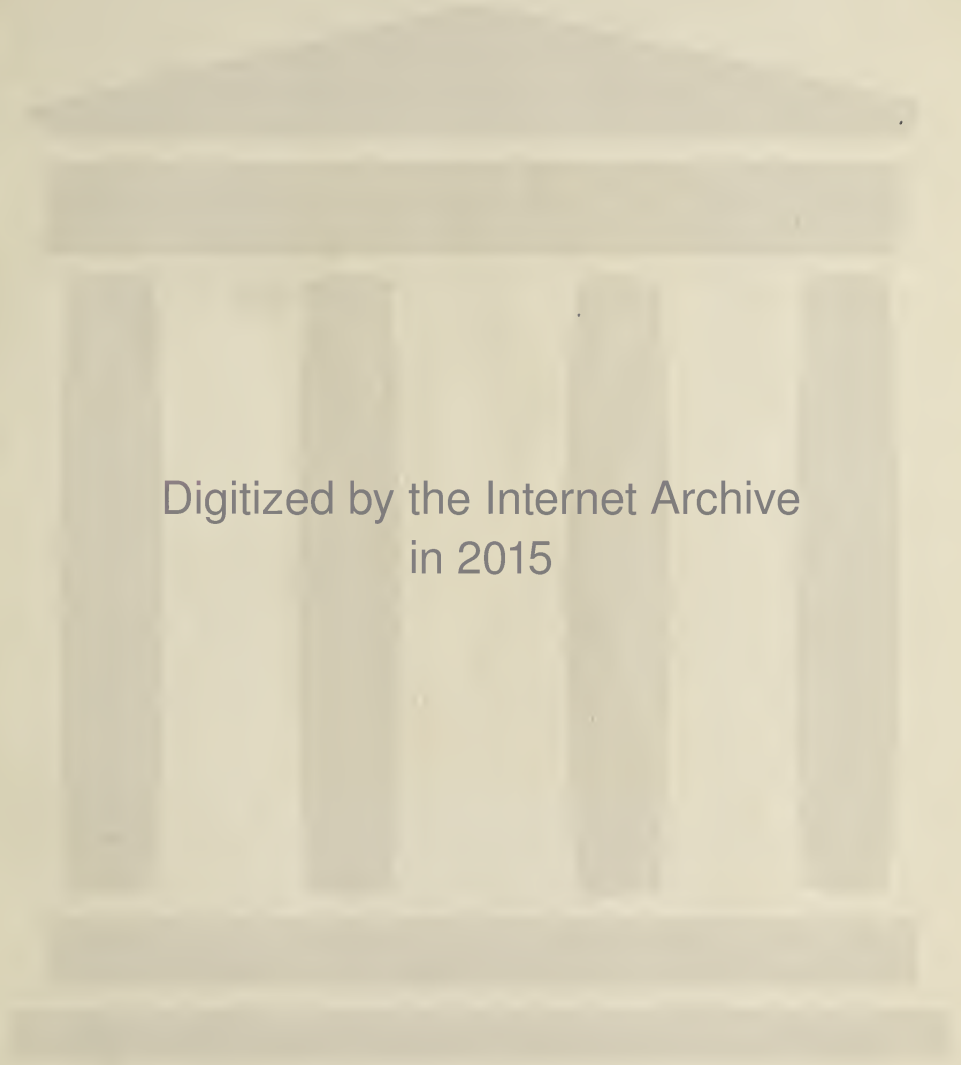

THE

Accountants' Students' Journal.

A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

VOL. I.

MAY 1883, TO APRIL, 1884.

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VOL. I.—No. 1.] MAY 1, 1883. [PRICE 6D.

NOTICE.

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THE

Accountants' Students' Journal.

MAY 1, 1883.

THE ACCOUNTANTS' STUDENTS' JOURNAL.

In these days, when the benefit of the Charter that has knit together into one body corporate the various societies of accountants is beginning to be felt; when the profession of accountancy is judicially recognised; when accountants' students are banding themselves together to more readily obtain by co-operation the knowledge necessary to pass the examinations of the Institute, and to be enrolled as Chartered Accountants,—some such journal as the one we intend to supply would appear to be necessary in the interests of candidates for admission into the Institute, in order to chronicle the doings of these students' societies, and to place before students all over the country the lectures and debates that have taken place before societies of which they are precluded by distance, or other causes, from being members. It is, therefore, with this object in view, and that of enabling those students who have not the means of purchasing, or the opportunity of seeing, *The Accountant* newspaper for the reports of these lectures, that we have started the *Accountants' Students' Journal* at a subscription fee that will place it within the reach of the poorest clerk in the profession. The journal will contain the lectures delivered before the students' societies for the month preceding publication, together with editorial and other matter that may be of special interest. In order, however, to make it as comprehensive as possible, we have decided to include the lectures that have already appeared in *The Accountant*, so that the record of each society will be complete. For this purpose we shall augment the size of the paper by four pages—*i. e.*, the first three or four numbers will contain twenty pages instead of sixteen. Our columns will be open at all times for the discussion of matters affecting students, subject only to considerations of space and utility. The time has been too short to enable us to make complete arrangements for a supply of literary matter, but we hope to be judged more by the indications given in this issue as to the scope and character of the paper rather than by the actual result of our first number.

It is our intention to make the *Accountants' Students' Journal* a thoroughly representative organ, and we hope to receive the support of the students and their well-wishers towards attaining this object.

JOINT STOCK COMPANIES.

We propose in this and following articles to bring before the readers of this journal a concise view of the law relating to the various subjects that will have to be considered by students, if they wish (when the time comes) to "satisfy the examiners." The Charter provides that examinations shall be held upon those matters that more particularly come under the practical notice of accountants in every-day life; and one of the subjects chosen is the law relating to Joint Stock Companies. This will be the subject of the present article, and of those immediately following; and it is hoped that they will be found of assistance to those for whom they are more especially intended. Now, the formation of Joint Stock Companies does not appear to have been fraught altogether with benefit to the country. If we take some of the best known companies established upon the joint stock principle, we find that although they may for years have paid dividends of a larger amount than is customary in such undertakings, and, indeed, a larger amount than prudent business men would consider safe; and although such

dividends may have been fairly earned,—yet take away the original mind that has directed the enterprise, and the result in a great many instances is ruin and distress to thousands of people. Take the well-known instance of the Western Bank of Scotland, and the still later instance of the Glasgow Bank, both at one time flourishing institutions paying large dividends, but which have, through subsequent mismanagement, ended in disaster and wide-spread distress, the effects of which are yet by no means abated. This being so, we can scarcely regard the establishment of these companies as having altogether answered the expectations originally entertained of them. They have certainly given an impetus to enterprise, and have enabled undertakings to be promoted and carried on successfully that could not otherwise have been called into operation for want of the necessary capital to support them; but it may be doubted whether the benefit they have conferred upon the nation is equal to the wide-spread ruin they have frequently wrought. Now in a great number of companies brought out at the present time, there are two well-defined stages that usually follow with the same regularity as the night follows the day. The first is the promotion of the company, and the second is the winding it up. Our endeavour in these articles will be to throw some light upon the promotion, management and winding-up of joint stock companies. It is as well, however, that the student should see in what respect a company differs from a partnership, and what are the respective liabilities of shareholders and partners; and a few remarks on those subjects, if space permits, will not be out of place. Now, by the Companies Act, 1862, which has for its object the consolidation and amendment of the law of joint stock companies, it is provided that "no partnership of more than twenty persons is to be formed for the acquisition of gain unless it is registered under the Act, or is formed under an Act of Parliament or letters patent, or unless it is formed for working mines within the jurisdiction of the stannaries." It appears, therefore, that the number of shareholders in a joint stock company consisting of more than twenty must be registered, and the object of the company must be the acquisition of gain. That object, as we have seen, is by no means a usual result, but it is in itself one worthy of pursuit, though frequently difficult of attainment. There are four kinds of companies provided for by the Act, viz. (1). A company with shares in which the liability of each member is limited to the amount unpaid on his shares, called "a company limited by shares." 2. A company with shares in which the liability of the members does not exceed the sum unpaid upon their shares, together with such sums as they may respectively undertake to contribute on the company being wound-up, called "a company limited by guarantee." 3. A company without shares in which the liability of the members is limited to the amount which they may respectively undertake to contribute on the company being wound-up, called "a company limited by guarantee." 4. A company with shares, but with unlimited liability, called "an unlimited company." We propose, therefore, to deal with the various aspects of these companies: the requisites for being shareholders, the requirements of the Acts, and matters necessary to be done in order to comply with those requirements, the management and administration of the company, and generally the provisions of the various Acts for the protection of the shareholder, as well as his liability after he has disposed of his shares and ceased to be a member of the company.

O. L.

LIVERPOOL CHARTERED ACCOUNTANTS' STUDENTS' ASSOCIATION.

Owing to most of the reports given in this issue being in type, we shall give the first and second meetings of the above Society in our next issue.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY.

The inaugural meeting of this Society was held on Thursday evening, Oct. 5th, 1882, at the Queen's Hotel, Birmingham; the President, Mr. Edward Carter, F.C.A., being in the chair. Among those present were Messrs. O. Holt Caldicott, E. M. Carter, W. Charlton, A. Edwards, E. W. Forrest, A. H. Gibson, C. A. Harrison, F. J. Heathcote, R. L. Impey, J. Slocombe, W. T. Smedley, C. T. Starkey, A. R. Johnson, W. A. Addinsell, W. D. Callaway, W. E. Fletcher, G. H. Sargent, J. Wilkinson, H. F. Woodward, and J. R. Ellerman (Hon. Sec.).

Letters of apology for non-attendance were read from Messrs. Arthur Wenham, E. T. Peirson, Walter N. Fisher, Robert Mayo, John Lewis, G. C. T. Parsons, and Howard S. Smith.

The President then delivered his inaugural address, as follows:—

Gentlemen,—In rising to address this important meeting, I have to thank the members of the Birmingham Accountants' Students' Society for the honour they have conferred upon me by electing me the first president of their Society. I should have been glad if the President of the Institute of Chartered Accountants in England and Wales could have been prevailed upon to act as the president of this Society, for then you would have had the privilege of hearing one of the first men in the profession, and of reaping the benefit of his vast experience, and of his views on various matters of interest relating to accountancy. I must, however, say that no one could possibly have been chosen as your president more interested than myself in everything relating to the success and well-being of the Society. I think I must first say something as to the formation of this "Students' Society," and of what has led up to it. (A little more than fifty years ago there were, I believe, only two accountants in this town and district; now there are upwards of two hundred firms in practice—an increase showing that a want had existed, and that, as generally happens, there were persons able and willing to supply that want. Such a

sudden development of a profession is, I think, unprecedented. It was no particular invention or discovery which made accountants a necessity, but simply the great general commercial development of the last fifty years; and also with this the march of intellect, and that in the right direction. When men owned small businesses or manufactories, they attended personally to every detail, and were perfectly familiar with every department. A man would with his own hand show his men how to do each part of the work. But now not only the owners of large businesses, but also the smaller manufacturers, find it more economical to pay others to do detailed work, while they themselves do hardly more than give general directions. One of our most successful manufacturers was some years ago lamenting to me that his sons, to whom he had given up his business (retaining however one-half the profits), came to work at half-past nine or ten in the morning, which he thought was not the way to make money. His habit, on the contrary, had been to open the works in person at six o'clock each morning. and to remain to write up the books until eight at night, Some time afterwards I told the son his father's opinion. "Very true," he said; "but the governor gets now more than double the profit he ever had when he worked the concern himself." The old man had forgotten how times had changed, though he extremely relished the double profits for himself. I mention this as a type of the change that has been coming over the commercial world in the last half century. Formerly each man bought and worked up his own raw material, and generally disposed of the same himself; but to carry on business now successfully subdivision is a necessity, and all manufacturers and commercial men, whether in a large or a small way, have come to know that large profits are chiefly made by a principal finding the capital, and the brain-power to work it. Of course, the sons in the case I referred to indulged in the luxury of an accountant; while the father always made up his own accounts, and not by double entry.

The Bankruptcy Act of 1849 in some measure led to an increase in accountancy; the preparation of bankrupts' balance-sheets, deficiency and other elaborate accounts, which had to some extent been formerly prepared in solicitors' offices, fell generally into the hands of accountants; also the hostile examination of the filed accounts for the purpose of opposing the bankrupt, became exclusively the work of accountants; and very exciting and interesting work it was, bringing out skill and ability to a great extent. About this time also the proprietors of large works or extensive businesses, having neither time nor inclination to do the work themselves, and in some cases lacking the ability, began more generally to employ accountants to make up their annual trade account.

From 1856 to 1862 various Acts of Parliament were passed enabling limited companies to trade and manufacture. These were not at first made use of to any great extent; but gradually they began to be understood, and after 1862 many large trading concerns were transformed into companies. This change again led to more work for accountants, although at first many of the auditors were not accountants, but only shareholders.

The passing of the Bankruptcy Act of 1869 also did more to increase the number of persons *calling* themselves accountants than any of the other causes I have previously mentioned.

A few years later the different associations of accountants which had been formed (two in London, one each in Liverpool, Manchester, and Sheffield), came to the conclusion that some step should be taken in order that accountancy might be recognised as a special profession, and be practised in the future only by those who had been specially trained for the purpose. Many accountants had joined one or other of the associations, which however had been worked on separate lines, and it took a few years to discover that it was only by union, and by sinking their individuality, that the object they each had in view could be accomplished. The result of their joint efforts was, that on the 11th May, 1880, there came into existence "The Institute of Chartered Accountants in England and Wales," then the bye-laws were framed and passed by the members of the Institute, and were confirmed at a meeting held on the 15th March in this year. The proposed bye-laws, however, had for months previously been in circulation amongst the members, and consequently clerks had already discovered that they could not slip into the profession of accountants as heretofore. Any one could indeed call himself accountant, but the word "Chartered" had already begun to have some hold on the public mind.

The clerks found themselves of so much importance in the eyes of the Chartered Institute that out of 117 bye-laws exactly one-third referred to clerks and to their examinations. Of course it set them thinking what steps they as a class should take, to obtain all the benefits which the Charter could give them. Now there were many clerks in this town who had chosen the profession of accountancy, little dreaming they would have to encounter the ordeal of an examination that required some skill in accounts. However, they manfully rose to the occasion, and on the day before the bye-laws of the Institute were confirmed, they held a meeting and founded "The Birmingham Accountants' Students' Society." They welcomed the opportunity of showing themselves able to be and to do all that the Charter of the Institute and its bye-laws required of them, and to prove themselves worthy of the trust and confidence reposed in skilled accountants.

The first circular issued in connection with the "Birmingham Accountants' Students' Society" was dated the 16th February in this year; the first meeting, as I before stated, was held on the 14th March, and the rules were passed at a meeting held on the 4th May last. Up to the present time there have been held four general meetings of members, and ten meetings of the committee. The minutes of these meetings are all entered in the minute book in due form. In a few weeks after it had been determined to form the society, everything was in working order. I think, gentlemen, that the professional ability and the business-like despatch of the members of the society, in this their commencement, cannot be too highly commended; and if, when they become Chartered Accountants, they give their clients the benefit of the same promptitude and earnestness, they will deserve and ensure success.

The Birmingham Accountants' Students' Society numbers already 64 ordinary members, all of whom within the next five years should become Chartered Accountants; and very much will be expected of the pioneers of this new movement. There are also 23 honorary members, but the list of these is not yet by any means in a complete state. The officers of the society are set out in the very tasteful circular convening this meeting; and as some gentlemen present may not have seen it, I will just read over the names; but I must first call attention to one very serious omission in the list of officers. This society of embryo auditors has no auditor, nor is any provision made for one.

The names are:—President, Edward Carter, F.C.A.; Vice-President, Charles A. Harrison, F.C.A.; Hon. Treasurer, A. R. Johnson, Articled to Carter and Carter, 33 Waterloo Street, Birmingham; Hon. Secretary, J. R. Ellerman, Articled to Smedley and Corder, 57 Colmore Row, Birmingham; Hon. Librarian, G. H. Sargant, 22 Waterloo Street, Birmingham. Committee, O. H. Caldicott, F.C.A.; W. A. Addinsell (Chairman), Articled to W. N. Fisher; R. L. Impey, F.C.A.; W. D. Callaway, Articled to Hill and Parsons; Howard S. Smith, F.C.A.; W. E. Fletcher, Articled to Mayo and Thornbury; G. H. Sargant, Clerk to Laundy and Co.; John Wilkinson, Clerk to W. N. Fisher; H. F. Woodward, Clerk to Carter & Carter. The following gentlemen have already promised to become honorary members:—Messrs. O. H. Caldicott, Edward Carter, E. Harold Carter, Eric Mackay Carter, W. N. Fisher, C. A. Harrison, R. L. Impey, R. Mayo, Howard S. Smith, Joseph Slocombe.

The gentlemen on the committee are not, I am sure, likely to forget the Birmingham motto, and you may rely upon good progress being made by the Society under their management,

and they are now ready efficiently to deal with every matter that may arise. I would urge all clerks, who intend becoming Chartered Accountants, to join this Society. The larger the number of members, the greater will be the benefit to each individual. With a full society, the debates and the meetings will be more interesting and more useful. Knowing one another will of itself do good. I have seen with astonishment, how little the members of the profession in this town know each other. I have heard that a gentleman in practice here for twenty years, had never spoken to another who had been in practice for the same time. I hope such a state of things is now passed.

Before this time next year, I trust the number of ordinary members will have very largely increased, and that there will be a goodly increase also in the honorary members. I do not propose going through the very good Rules of the Society, or attempting to discuss them. In five years there will be an entirely new body of ordinary members, and that time will show if any, and what, alterations will be beneficial. The Rules at present are amply sufficient for their purpose, and reflect great credit on the gentlemen by whom they were drawn up.

The first rule is *the* rule of the Society, and I will read it:

"That the society be called The Birmingham Account-
" ants' Students' Society, and shall consist of honorary and
" ordinary members. Its objects shall be, the advancement
" of its members in the knowledge and study of Account-
" ancy."

Accountancy, as is well known, is the profession of a man skilled in accounts; in the same way as a lawyer is skilled in law, a physician in medicine, or a statesman in the art of governing; and the more skilful each member of a profession is, the higher is the position of that profession, both as to its usefulness, and the regard and respect in which it is held by the whole community. I venture to predict that in the future no profession will deserve to stand higher in public estimation than that of a Chartered Accountant.

I should like, gentlemen, very briefly to consider what are the various departments or branches of accountancy. The oldest, I believe, is:—The making out of accounts for the Court of Chancery and other law courts; the making out of executorship accounts, and of the accounts of estates; the making up of balance-sheets, of trade accounts, of profit and loss accounts for commercial and professional firms and individuals; the auditing of the accounts of public bodies and societies, of limited and other public companies; the investigation of any accounts referred either for decision or for an opinion. These, I consider, are the branches of the profession which will require skill in accounts, but there are other branches which may be considered as belonging to the profession, though requiring rather general knowledge of, than skill in, accounts:—secretarial work; bankruptcy and liquidations, such as being receiver and trustee in bankruptcy or liquidation; the liquidation of public companies; the promotion of public companies; insurance agency.

Now, gentlemen, how are the ordinary members of this Society to advance in the knowledge of all these things? A man may study for years and pass his examinations, but when he begins to practise in a profession he may find himself utterly bewildered. With an articled clerk in an accountant's office, in the same way as with an articled clerk in a solicitor's office, study and practice go on together, and cannot be separated. Theory *alone* will fail when it is attempted to be put in practice, and book knowledge cannot provide for all and every contingency. Occasionally we meet with bookkeepers who, after having been shown how accounts should be kept, have gone on different and mistaken systems, which they have ignorantly contended are laid down in a certain book on accounts which has been carefully followed by them, and with which they intend putting the accountant straight. The books of accounts which are published cannot give a reference to the different classes of trading and manufacturing, nor to the variety of cases where modifications are advisable and necessary. Lawyers have law books, which give references to so many cases that have been tried and decided, that they can see how almost every variety of case should be treated, and advise accordingly. Bnt in accounts this cannot be done, and the more you practise, the more you will see how seldom two similar concerns in the same trade, with their books correctly kept, are the same in the detail of their accounts. On the whole, I think this is rather an advantage than otherwise to the accountant.

I presume each member of the society has seen the questions set for the examinations in July last. Those for the preliminary examination, I am told, are such as could be answered by most of the boys leaving our Birmingham Grammar School. I do not propose dealing with this preliminary examination, as unless a young man passes it he cannot become a member of this society. There are questions set which no amount of cramming would enable me to answer; and I and many others, are, I am sure, most grateful to Her Majesty, for dispensing with an examination for those accountants already in practice.

The rising generation have many privileges and advantages, and amongst them is that of frequent examinations. There has been discussion as to the desirability of such a preliminary examination for an accountant's clerk; but high education being now accessible to all, I think a high standard of examination is a good test of the proficiency and ability of those lads who wish to become members of our profession.

No intermediate examination has yet been held, it being applicable in due time to those only who have passed the preliminary examination.

The final examination deals entirely with practical subjects. The questions on bookkeeping, and indeed throughout, so far as they relate to commercial matters, are chiefly in connection with the business of a merchant. Technically, a merchant is one who ships goods abroad on his own account and in the same way receives goods from abroad: and in London such a merchant has certain privileges, such as not being liable to serve on the inferior juries; and this is so well-known to Londoners, that by the term "merchant" they generally understand a foreign merchant only; so that the questions to a London student would convey a different meaning to that which perhaps a Birmingham student might attach to them, and there would be some slight variations in the answers; but, on the whole, the questions do not appear very difficult.

Most of the questions on auditing should readily be answered by a student of five years' standing.

Those on the adjustment of partnership and executorship accounts are not difficult to answer. I consider, however, that the adjusting of partnership accounts belongs more properly to ordinary bookkeeping and to the auditing of the accounts of private firms as they occur year by year.

The questions asked as to the rights and duties of liquidators, trustees, and receivers, and also as to bankruptcy and common law, do not touch much upon accounts, and require law reading, rather than practice in accounts, to enable the student to answer them. They rather support my opinion that skill in accounts is not an absolute necessity for many of those duties. I do not deny that some knowledge of accounts is necessary, but skill is not.

The questions on mercantile law and the law of arbitration have not much reference to accounts; but the former should be familiar to every accountant who has to do with the annual accounts of trading firms. Some knowledge of both these subjects is necessary to a skilled accountant.

Now we come to the question of passing examinations.

How can students be enabled to pass these examinations, as they must do, to become Chartered Accountants? Only in the manner so truly stated in your first rule, namely, by "knowledge and study." Study is absolutely necessary to obtain the sufficient knowledge, and the fortnightly meetings to be held will greatly facilitate such studies. Although I have never examined, or lectured, or taught, yet you will, perhaps, pardon me if I venture to sketch out the course which I should wish to be pursued if I were now a student.

At one meeting I would have a preliminary discussion of the questions set at the last examination on the subject of book-keeping, to decide the meaning of different words or sentences in the questions, if there should be two opinions about them. Before the next meeting each student should write out his answers to the questions discussed, and at the meeting give in his answers, and submit them either to three of the members who were present at the previous discussion, or to your three honorary members, who would decide which are the best answers to each separate question.

At the third meeting these prize answers can be discussed, and the questions on the next subject will undergo a preliminary discussion as in the former case. I think the adoption of such a course would not only be interesting, but would, by familiarising you with examinations, assist you in passing them. Then when the list of those books which are recommended for study for the next examination is out, I would suggest the engagement of a special lecturer, who would at your meeting keep as much as possible to the points which, in his opinion, will be the subjects of the next examination. At some following meeting, each student should submit his idea of the questions likely to be set by the examiners. Your lecturer should then settle upon a list of questions, to which your replies should be ready for discussion at another meeting, and so on. This would, I imagine, prevent time being unnecessarily occupied in reading up the subjects; and it would enable students, by a constant interchange of thought and of ideas, to see a subject in all its various bearings.

The results of the Chartered Institute examinations in July last have been as follows:—Preliminary: maximum number of marks, 800; examined 13, passed 5: the numbers obtained by the successful candidates ranged from 335 to 493 marks. Final: maximum number of marks, 600; examined 25, passed 16: the numbers obtained by the successful candidates ranged from 322 to 457, so that judging simply by the number of marks success has hardly yet been obtained. Considering that there were no precedents for this examination, I think you will agree with me that some of the candidates for the final examination have done exceedingly well.

You must however remember that you may have advanced sufficiently in the knowledge and study of accountancy to pass all these examinations, and yet not be a skilled Accountant: you may be able to put all your knowledge into practice, but even that is not sufficient. An accountant is expected to know much more than all this, and whilst you are a student it should be your endeavour to acquire knowledge not only by study, but still more by practice; and you should let no opportunity pass of acquiring a practical knowledge of details. When a manufacturer's accounts are made up at the end of the year, and there has been a loss, perhaps a heavy loss, he then will ask his accountant for suggestions: then come investigations as to percentages of prime cost, dead charges, depreciation, powers of increasing production, cheaper labour in production, reduction of staff, change of the old manager or foreman, and other things which, so long as the profit has been satisfactory, have been disregarded by the manufacturer. Now an accountant, in thus advising his client, has to abandon theory and to be intensely practical, he must be almost confident as to what he recommends; if possible, he should speak from some experience, and he must be content simply to make suggestions, rather than urge his opinions strongly.

Gentlemen, accountants are sometimes told that their vocation is simply to make out accounts for their clients, and that they are stepping out of their proper sphere when they advise how the business can be better carried on. I do not agree with this view, but I allow that such advice has to be given very carefully and judiciously, and hardly at all by young beginners. How many cases do we all know, of men brought up to no business in particular, and knowing little or nothing of commerce, putting their £1,000 or £2,000 or £5,000 or more into a business quite strange to them? In such cases would not the accountant be doing a positive wrong, should he omit to point out matters to his client if the necessity arose? Again, it should never be said by a bankrupt that he would have pulled up sooner, but his accountant would not let him. In truth the advice is generally given the other way. Another thing is sometimes expected of an accountant, which no examination is likely to touch. Limited companies spring daily into existence, the accountant is instructed to originate the whole of the bookkeeping, from the very smallest paper upwards. If, for instance, it be a Colliery Company, he must prepare wages' tickets and books, store tickets and books, sale tickets, weighing-machine books, and every book on the place; and then the habits and prejudices of the people who will have to keep the books must be studied, or the system will be found not to work, and then to his disgust the accountant has somewhat to modify his system to suit the ignorance of these persons. Again, how often do directors of public companies ask questions of auditors, the answers to which are not to be found in any books on accounts.

From what I have said, you will gather that I consider an accountant should not only have skilled and technical knowledge of accountancy, but he should also be possessed of good sound practical common sense. When he is with his iron-master client, rolling-mills and puddling furnaces should interest him; with his brewer client, he should show some interest in hops and malt; at a colliery, he should burrow underground (this I have always taken care to avoid); with a miller, he should wear a white hat, and so on. Then whenever or wherever you may meet your client, the contents of his last balance-sheet should instantly flash on your memory; nothing gives a client more satisfaction, than to believe his affairs are of so much importance, that you cannot forget them.

You will do well also to study, or at any rate to notice, various forms, circulars, and other things in use in commercial circles, that you may have an insight into the way business is transacted. I have heard of accountants who could not decently draw an ordinary commercial bill of exchange, many have not seen bills of exchange in sets, or bills of lading, or bought notes, or sale notes, or a policy underwritten at Lloyd's; now sometimes these things are put before you as one able to give an opinion, and it is well not to be quite ignorant of them, but quietly and unostentatiously to gain some knowledge of them (carefully avoiding anything that might look like prying into matters that do not concern you), so that you may be familiar with every sort of detail which may crop up in any account that may come before you. Gentlemen, each one of us has, and always will have, much to learn in the practice of accountancy, and we see the same in every other profession.

Now I would call your attention to specialties amongst accountants. In London these are more developed than in the provinces. There, I believe, you will find a class of accountants, whose clients are nearly all brewers, or engaged in trades connected with brewing; another class favour wine merchants; another millers; another builders; another drapers; another grocers; another the leather trade, and so on. In Birmingham this has not hitherto been the case, we have been satisfied with being considered good all-round men. My advice to students is to do all their work well, but at the same time to try and excel in some one branch, and to obtain a name for so doing. The Council of the Chartered Institute has power to allow an articled clerk to pass part of his time in some other pursuit, and this has already been exercised in favour of a clerk who intended to take up a special branch.

Now, as to the best time of life for commencing practice. I think, unless it is as partner in an already established firm, the age of twenty-five is quite young enough. It is not until a clerk is almost out of his articles that his principals can, even in ordinary cases, commit audit or other work to his sole charge, and in the following two or three years he obtains more practical knowledge than in the previous five or six. By the age of twenty-five he should have attained to that tact, method, accuracy, punctuality, patience, and courtesy which, together with steadiness and hard work, are necessary for great success in the profession; and he will be ready to practise all the virtues of the profession, even if he cannot obtain all its rewards.

Many years since, when I lived in Germany, I read of some town officials who, on being inducted into office, were exhorted to do their work as if the eyes of their fellow-citizens were always upon them. Gentlemen, if accountants will act in this manner they will do well; but I will go further and say without any hesitation, that those who do their work as if the eye of their God was upon them do best of all.

Some people say that the profession of accountants is overcrowded; but, gentlemen, look at the benighted multitudes who do not employ us. My complaint, however, is that there are not a sufficient number of *skilled* accountants, and I say *skilled* specially. Up to 1869 almost every accountant in practice was obliged to show some skill in accounts, or he had but little to do; he might pick up other work,—secretarial, insurance, or what not,—but not work requiring skill. Before 1869 Birmingham was the bankruptcy centre for a very large district, and all bankruptcy proceedings arising in that district were carried on here. Then came the 1869 Act, which made a sweeping change. Wherever a County Court judge sat, there was a bankruptcy court with all its machinery, excepting that of the official assignee, whose office was then done away with, and in his stead receivers were appointed by the court, and trustees by the creditors, to wind-up estates in bankruptcy. Within a few years accountants doubled in number, and we find that accountants, whilst practising in their profession, were also agents of various sorts—auctioneers, bailiffs and brokers, debt collectors, clerks to solicitors, law stationers, hatters, tailors, publicans, keepers of refreshment rooms, wine merchants, and so on. Can you wonder that the skilled accountants applied for the Charter, so that some distinction might be made between skilled accountants and others?—the others being chiefly those whose practice for the most part consists in receiverships and trusteeships, which do not require *skilled* accountancy.

Have you, gentlemen, ever thought of comparing the cost to the nation of receivers and trustees doing the work of the official assignees? In the Birmingham district (which I believe was the largest in the provinces), there was at last but one official assignee, with his staff of clerks and his offices. I do not see how the whole of the salaries and expenses could have been £4,000 a year, notwithstanding the size of the district. There are gentlemen present who know more of these things than I do, and can say if I have placed the amount at too low a figure. But all the gentlemen present cannot together say what is now the annual charge for similar work over the same district. Will it amount to the £4,000, or will not £40,000 a year be nearer to the amount? How else could all the so-called accountants in little towns and large towns engaged mainly in such work gain a living as they do? Were official assignees again to be appointed, the loss to accountants would be enormous, and the gain to the public would be proportionately great. Unskilled accountants might succumb, but skilled accountants, although they might lose some work, would gain in the respect of the public, and I believe ultimately in pocket.

I have already remarked upon the work which I consider may be said to require skill, and I would just say that such work, even if not the most profitable in itself, is yet the most desirable, for it means permanency. Some accountants in this town have retained clients and work for thirty, forty, or even more years; these introduce new clients, and there is an evenness of work throughout the year which is not seen in offices where the work is chiefly that which I class as unskilled.

Has it ever struck you, gentlemen, to inquire how it is that only in this kingdom does accountancy flourish; and why there is no corresponding profession on the Continent, or even in America? In Germany, France, Belgium, Switzerland, and elsewhere there are some gigantic business concerns (though but few as compared with England) in the hands either of private firms or of public companies. The former class do not appear to call in outside professional assistance; and the latter somehow get on without it, or else a government official goes through a portion of the accounts. When abroad, having occasionally to state my profession or occupation, either to officials or to private friends, I have with the latter invariably had to state what it meant, as it was a profession unknown in their country, and the idea was quite new to them. I have explained fully, but have been answered that their men of business were clever enough themselves to ascertain their profits, and the state of their liabilities and assets; and in respect of trading companies, they could not be made to understand why shareholders of a company, who elected the directors, should elect another official to see that the elected directors do not render false accounts; and the polite bow or the contemptuous shrug showed me their opinion of our men of business, and particularly of those who employed accountants. Verily, gentlemen, accountancy abroad is at a very low ebb, and can hardly be said to exist. In America there are some clever experts, who practise I believe chiefly in connection with the law courts and arbitrations. One such heavy arbitration account came through my hands, and it was most artistically put together, and cleverly carried on throughout. Once one of my clerks went to America to get a living as accountant or as accountant's clerk, but he soon returned, unable to find work. I may say, however, that he had previously visited Jerusalem with the same object in view. Gentlemen, I place the profession of accountancy in the very highest rank in respect to its usefulness to those in commercial life who avail themselves of its services. It has been said that no man is a hero to his valet; so I consider no man whose books are gone through yearly can deceive his accountant as to his real business position, however he may impose on his co-traders, his family, or even on himself. His solicitor knows generally only those isolated matters on which he may be consulted; his surgeon only knows his diseases, aggravated, he suspects, by business or other anxieties; but no one is so fully trusted, or has so much of his confidence, as his accountant. Gentlemen, this is a most important trust, and it behoves every member of the profession, and every individual in his employ, to take the utmost care that this confidence is in no way abused. This applies equally to trading companies and to individuals. Neither by word, look, or hint should any person be able to guess that your opinion of your client's position is anything but the very highest. My experience is that information is more carefully kept close in the accountant's profession than in any other, and considering the large number of persons engaged in it, the fact is most creditable to all, but particularly so to the subordinates in the offices.

Gentlemen, an accountant should possess a sound constitution, be temperate in his habits, and regular in his life; and I should say to any young man who does not combine good health with his other qualifications, that he had better find some other vocation; for it is essential to his continued success; whether the accountant be well or ill, balance sheets must be audited and signed by a certain day, fixed appointments must be kept as they come round, and at certain times of the year rest is almost an impossibility. Gentlemen, every other profession has its very old practitioners. Lawyers, surgeons, physicians, clergy, and others; but where are the very old accountants? I know but of one in this town and district, and I do not know of another over sixty-five years of age.

Gentlemen, I have already congratulated you on the establishment of this flourishing society, and it only remains to express my wish that its prosperity may be complete and permanent, and my hope that every ordinary member of the Birmingham Accountants' Students' Society may in due time become a successful and distinguished member of the Institute of Chartered Accountants.

Mr. C. A. Harrison (the Vice-President of the Society) then addressed the meeting, and congratulated the members upon the inauguration of the institution. If he might say a word to the students, in addition to what had fallen from the President in reference to the high character which accountants should seek to attain, he would say that a result of his experience was that next to his religion a man should put his business, and then his relaxation. One great reason why the profession was appreciated was that men of sterling worth, great ability, force

of character, and determination to do what was right, had adorned it throughout the country. He hoped that the status of the profession would be improved, and become all that had been predicted.

Mr. A. H. Gibson and Mr. Robert L. Impey also spoke.

Mr. W. Arthur Addinsell (Chairman of Committee) proposed, and Mr. Clarke seconded, a vote of thanks to the President, which brought the meeting to a close.

THE COMPANIES' ACTS.

The following is a full report of the lecture on the Companies' Acts, by Mr. A. H. Gibson, delivered before the Birmingham Students at their second ordinary meeting, held on the 31st of October, 1882, Mr. C. A. Harrison in the chair.

The lecturer said:—Company Law is a modern statutory offshoot from the Law of Partnership. It will be well first to get the clearest view we can of what companies legally are; to enable us to do this I must say a few words on their legal history. The common law of the country recognised only two ways in which persons could be associated together for the purpose of making profits by trading, viz. Partnerships and Corporations. In partnerships the law looked behind, so to speak, the trading firm to the persons composing it, making each individual responsible for the liabilities and enabling each to enforce the rights of the associated firm. In corporations, on the other hand (which were usually created by Royal Charter), the individuals composing them were for the purposes of the corporations legally non-existent. The corporation became an individual, with capacity as an individual to acquire rights and incur obligations; the individuals composing it could not as individuals enforce its rights, nor were they privately liable for its obligations. During the last century so-called Joint Stock Companies, or Partnerships with transferable shares, struggled into existence, but were not regarded favourably by the legislature; they were subjected to various legal obstacles, and, indeed, Acts were passed which were intended to suppress them. Since 1825, however, they have gradually made legislative progress, and by various Acts, culminating in the Companies' Act, 1862, their establishment has been encouraged. Bearing in mind what I have just said respecting Partnerships and Corporations, we find companies, while resembling both, differ from each. They are not partnerships, for the law recognises them as aggregate bodies, as distinct from the individuals composing them; a creditor of an unlimited company, for example, must first proceed against and exhaust the assets of the company before he can sue an individual shareholder, whereas in a partnership he can sue any partner at once for a partnership debt. On the other hand, companies are quite distinct from the old corporations, for the individuals composing them are, in the event of winding-up, for example, called into legal existence, and are more or less liable as individuals for the debts of the collective whole.

There are two general heads under which Joint Stock Companies are divisible, viz. Unincorporated and Incorporated. The Unincorporated Companies are for the most part survivals of the time when the legislature waged war against companies. They differ from partnerships in but two important respects, viz.:—

1st. Shares therein can be transferred by private arrangement between vendor and purchaser, and with the knowledge or consent of all the members.

2nd. Some of them are empowered to sue and be sued in the name of an appointed public officer.

As, except in these respects, Unincorporated Companies are controlled by the ordinary Law of Partnership, which is foreign to the subject of my lecture, I shall not, except incidentally, refer to them further.

Incorporated Companies are divisable under three heads, according to the method of their incorporation, viz. those incorporated by

1. Special Act of Parliament.
2. Royal Charter.
3. Registration.

In order to preserve logical arrangement and sequence as far as possible in this somewhat interlaced subject, I shall arrange what I have to say under four heads, viz.:—

1st. The law affecting the formation of companies and membership therein.

2nd. The law affecting the constitution of companies, and the rights of the members among themselves.

3rd. The law affecting the external relations of companies, *i.e.* their relations with non-members.

4th. The dissolution and winding-up of companies.

Firstly, then, let me ask you to consider the law as relating to the formation of Incorporated Companies, and what constitutes membership therein.

The third method of Incorporation just mentioned, viz. Registration, is so much the readiest and cheapest, that nearly all companies are now formed in that manner; indeed, it is only when exceptional powers are required that the other methods are employed. We will therefore consider firstly the incorporation of companies by registration. Some companies exist which were incorporated under the earlier Joint Stock Companies Acts, 1844, '55, '56 and '57; the principal statute now, however, in operation is the Companies Act, 1862, which repealed the former statutes and consolidated the law on the subject. Various amending Acts have since been passed, but the law has not been materially altered since the 1862 Act was passed.

This Act enables any seven or more persons associated for any lawful purpose to form by registration under the Act an Incorporated Company, with or without limited liability. The provision that seven persons at least shall be required to form a company is one which, like many other statutory provisions, is often obeyed in the letter and evaded in the spirit. Concerns which are and are intended to remain the private property of one man are frequently, to secure the benefits of limited liability and perpetual succession, registered as Joint Stock Companies. The requisite number of nominees subscribe their names for one share each, while the virtual proprietor subscribes, say for 10,000. When application is made to register a company there is presented to the Registrar what is called the Memorandum of Association, subscribed by the persons desirous of incorporating the company. This Memorandum of Association is required to set out the name, situation of the registered office, and objects of the proposed company.

It is doubtful whether, as regards the objects of the company, the memorandum can ever be altered; while if any act be done by the company which is not within the terms of the Memorandum of Association, such act is illegal, and involves the usual penalties of *ultra vires* Acts. For this reason the terms of a Memorandum of Association are generally as wide, vague and inclusive as possible, so as to authorise any acts only remotely connected with the ostensible objects of the company. If limited liability is desired, some further particulars, with which I need not trouble you, have to be stated on the Memorandum of Association; the particular point I wish you to bear in mind is, that the Memorandum of Association is, so to speak, the source and constitution of the company, and that the company must never travel outside its terms. If the company be formed with unlimited liability, or with liability limited by guarantee (which means that, in the event of winding-up, certain persons guarantee fixed amounts towards any possible deficiency), there must also be registered with the Memorandum what are called Articles of Association. These correspond to the Articles of Partnership in an ordinary partnership, and regulate the respective rights and duties of the shareholders, directors, and other officers as among themselves. With reference to companies limited by shares, there is attached to the Act a schedule called Table A. This consists of a sort of pattern Articles of Association, but it is optional with companies to adopt them or any of them, or to draw up entirely fresh Articles, which must be registered at the same time as

the Memorandum of Association. If no Articles are presented for registration, Table A. becomes binding on the newly formed company. Upon the due registration of the Memorandum, and where required of the Articles of Association, the Registrar of Joint Stock Companies issues a certificate that the company is incorporated, and, in the case of a limited company, that it is limited; in the words of the statute, then "the subscribers of the Memorandum of Association, together with such other persons as may from time to time become members of the company, shall thereupon be a body corporate by the name contained in the Memorandum of Association, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a Common Seal."

In the case of a private Joint Stock Company, *i.e.* where all the necessary capital is found by the subscribers to the Memorandum of Association, the company will now be fairly started on its way; but where it is intended to invite the public to provide the necessary capital, we have now got to the point where prospectuses are issued and subscriptions to the capital invited. The usual *modus operandi*, as you doubtless know, is the circulation of prospectuses detailing the objects and advantages of the company; to these prospectuses forms of application for shares are attached, which the intending shareholder is invited to fill up and forward with a deposit to the bankers or secretary of the company. If sufficient shares are applied for to justify the continuance of the company, the directors allot the shares to the respective applicants, who receive notice thereof and thereupon become members of the company. This seems perfectly simple and straightforward, nevertheless there are few questions on which more fine drawn arguments have been strung and more refining decisions given than on the question of what is necessary to constitute a person a member of a company. I do not think that it is the intention of the Council that Chartered Accountants should be required to be conversant with all these refinements, so I shall refer only to a few leading principles. In the first place, a subscriber to the Memorandum of Association is *ipso facto* a member; no application or allotment is necessary in his case. A director also who acts as such, or allows himself to appear as such, cannot deny his membership to the extent of the number of shares necessary to his qualification as director, though he may not have applied, or the shares may not have been allotted. For the rest, with regard to the original shareholders the prospectus is regarded in law as the basis of the agreement to take shares, and, consequently, if the company be materially different from what is represented in the prospectus, an allottee of shares can claim to be relieved from membership. An application for shares is not sufficient to constitute the applicant a member, unless the shares be allotted and notice thereof be forwarded to the allottee; an application for shares is, in fact, only an offer to take shares, and like any other offer, can be revoked before it is accepted. Where no time is mentioned within which an application for shares is to be determined upon, the Courts have held that if not accepted within a reasonable time it will be considered as declined—what is a reasonable time must depend upon the circumstances of each case. The allotment of shares must be in the precise terms of the application, otherwise the letter of allotment will be regarded only as a new offer, which the proposed allottee can either accept or reject. Decisions on this principle have been given where ordinary shares were applied for and those allotted were not transferable, where 100 shares simply were applied for and only 25 allotted, where £20 shares were applied for and £40 shares were allotted. It is, however, held that if a person has shares allotted to him, which he is entitled to reject but retains them after the variation justifying their rejection has come to his knowledge, he cannot afterwards reject them. Also if there be a material difference between the prospectus on the faith of which he has applied and the Memorandum of Association, and he does not within a reasonable time inform himself of the discrepancy and act upon it, he cannot afterwards reject his shares. In all these cases, however, the Courts distinguish between repudiation of shares before winding-up and afterwards. A much stronger case being required to relieve a member of liability as against creditors than as against the company. Moreover, the Courts of Equity often include persons as members or relieve them from membership by acting on the principle of treating what is agreed to be done as completed; they also, as well as the Courts of Law, introduce into questions of membership the doctrine of the estoppel, whereby if, notwithstanding irregularities in the steps by which a person was supposed to become a member, he has acted as such, he is estopped from denying that he is a shareholder; similarly if the irregularities have been in the steps by which he purposed to determine his membership and the company has ceased to treat him as a member, the company is then estopped from denying that he has ceased to be a member. Time, however, will not permit me to pursue this branch of the subject.

Such is a brief sketch of the law of the formation of companies by registration. I will now turn to the other two classes of companies, viz., those incorporated by Royal Charter and those incorporated by Special Act of Parliament. I need scarcely say anything about those formed under Royal Charters, as these are very seldom granted—in fact, they scarcely come within my subject, as trading concerns to which Charters are granted become corporations as distinguished from companies, and there is no personal liability or recognition of the members. The Institute of Accountants is, you know, incorporated by Royal Charter, but this is not a corporation for gain. I believe recently a Charter has been granted to a Borneo Company with objects similar to those of the old East India Company. Beyond taking note of the fact that companies or corporations can still be established in that manner, I do not think we need trouble ourselves with them. Companies incorporated by Special Act of Parliament constitute a very important branch of our subject. A company incorporated under the 1862 Act has, as far as the world outside is concerned, no rights or powers beyond those of an ordinary individual or partnership. If any special powers are required affecting the general public, such as the power of compulsory purchase, the right to break up streets or highways, monopolies, &c., these powers have to be specially asked from Parliament. As such powers are essential to railways, dock, gas and water companies, and similar undertakings, the promoters of such schemes cannot avail themselves of the 1862 Act. When Special Acts are asked for, the two Houses of Parliament require very strict compliance with certain standing orders, drawn up specially with the object of ensuring that everybody whom the proposed Special Act may affect shall have notice of the Bill, and the opportunity of opposing or seeking to amend it. In companies of this class the Special Act takes the place of the Memorandum and Articles of Association in the registered companies; with regard to both objects and mode of working, such companies are strictly controlled by the terms sanctioned for each company by Parliament. To avoid, however, the repetition in every Special Act of provisions requisite for all or for particular classes of companies, certain *pro formâ* Acts of Parliament, containing such general provisions, have been passed which are, by the several Special Acts, made to apply to the various companies. Among these are the Companies' Clauses Consolidation Act, 1845, which is made applicable to every English company incorporated by Special Act of Parliament since that date, unless specially excepted; the Gas Works Clauses Acts, 1847 and 1871, made part, in addition to the Companies' Clauses Act, of all Special Gas Acts; the Waterworks Clauses Act, 1847, similarly applied to Water Companies; the Land Clauses Consolidation Act, 1845, applied to all companies which obtain by their Special Acts power to acquire land.

As to what is requisite to constitute membership in these companies the rules mentioned with regard to companies formed by registration for the most part obtain, but one important difference in practice must be noticed. In companies formed under the 1862 Act, the promoters can state definitely in their prospectus what the constitution of the company is or will be when it is registered, and any false statement on the prospectus justifies the rejection of the shares. With a pro-

jected company applying for a special Act, on the other hand, its constitution is not known until the Act is finally passed; promoters therefore cannot state in their prospectus exactly what the company will be for which subscriptions are invited; for these reasons, persons who subscribe to such projected companies usually give the promoters extensive powers, and bind themselves to take shares in almost any company which the promoters may get incorporated, and which is not altogether different from the scheme submitted to them; such persons are then usually constituted shareholders by the special Act.

Companies formed by registration, and companies to which the Companies' Clauses Act is applicable, are alike required to keep a register of members, and such register is *primâ facie* evidence that the persons whose names are entered therein are members. There are variations in the wordings of the two Acts on this subject, to which I need not refer. Under both Acts the effect of the decisions appears to be that entry on or omission from the register will not be allowed to operate wrong; but the method of getting relief differs under the two Acts.

With respect to the formation of companies, there have recently been some healthy decisions regarding the profits of company promoters. The principle is, I think, now clearly laid down that unless there is full disclosure of the fact no promoter is entitled to obtain any personal advantage from the sale of property to the company, and it matters not through what tortuous paths the money travel, if the fact be discovered the Courts will require such promoter to account for it to the company.

Having now got our company established, whether by registration under the 1862 Act, or by special Act of Parliament, and having also seen what constitutes membership therein, I will now take you to the second part of my subject, viz :—The rights and duties of the members *inter se*. These of course vary in every company according to the Act of Parliament establishing it, or to the Articles of Associations which its founders adopt. There are, however, a few general principles which I will first point out. In ordinary partnerships it is the exception instead of the rule for any difference to exist as regards the respective powers of the partners in the management and control of the business, but the partners or shareholders in a company are divisible into two bodies, directors and shareholders, with interests supposed to be identical, but with different powers and functions. The directors are alone entrusted with the management of the concern, and are usually appointed by the shareholders to whom they are accountable. The number of the directors or managing body is usually fixed by its Acts of Parliament or Articles of Association, and also the number which shall constitute a quorum; in the absence of the latter stipulation the absence of any one of the body vitiates their acts. Directors also are usually required to hold a stipulated interest in the company's capital, and the manner of their appointment is laid down. But in dealing with the acts of irregularly appointed directors the Courts distinguish between strangers and shareholders; strangers dealing with them without notice of any irregularity in their appointment can hold the company bound by the acts of such directors; but, on the other hand, as between directors and shareholders, the Courts will render void such acts as making calls or forfeiting shares, if it be shown that the directors have not been regularly appointed. A director cannot repudiate any of his own acts to his own advantage on the ground of irregularity in his appointment. Directors have no power to vote themselves remuneration for their services beyond what the constitution of the company provides.

The right of control by shareholders over the proceedings of the directors is not an individual right, and can only be exercised through duly convened meetings; the directors are servants, not of the individual shareholders, but of the company. Provision is generally made for summoning such meetings by directors, and in certain eventualities by the shareholders. Where this latter right does not exist, a Court of Equity will usually interfere to prevent any abuse of power on the part of those entrusted with the control of the company's affairs. Four conditions must obtain to enable a resolution of a meeting to have any legal effect:—

1st. The meeting must be properly convened.

2nd. The requisite number of persons must be present

3rd. The resolution must relate to a matter with which the meeting is competent to deal.

4th. The resolution must be duly passed.

Time will not allow me to deal with the numerous decisions turning on the foregoing conditions, and bearing on the validity of resolutions. The third condition, however, relating to the competency of the meeting to deal with the subject-matter of the resolution, is a very important one. There are two kinds of meetings of companies, ordinary and extraordinary. Ordinary or general meetings are usually held at stated times, and are competent only to deal with such matters as the passing of accounts, the regular election of directors and similar matters brought within their powers by the constitution of the company. For particular business, not within the scope of the powers of an ordinary meeting, an extraordinary meeting must be called, but the purpose for which such meeting is convened must be stated on the notices by which it is summoned, and no question other than that or those of which notice is so given can be legally dealt with by such extraordinary meeting; any resolution passed on any other subject is inoperative. An ordinary majority, in the absence of any special provision, is only necessary to pass a resolution, but for some matters, such as the alteration of Articles, determination to wind-up, &c., special majorities are generally, by the constitution of the company, required.

The foregoing are general principles as to the respective rights, powers, and duties of directors and shareholders; I will now ask your attention to some of the special provisions for each of the two classes of companies to which we are confining our attention. The 1862, and its amending Acts, do not contain many references to the respective rights and duties of directors and shareholders, as these are matters rightly left to be settled by the members of each Company in their Articles of Association. By these Acts, however, it is required that a general meeting of the shareholders shall be held at least once in every year, and also a similar meeting within four months after the registration of the Memorandum of Association. Power is also given to members to appoint or to move the Board of Trade to appoint inspectors to examine into and report upon the state of the company's affairs. It will be worth our while to examine shortly some of the provisions of Table A, for although it is only binding on companies which do not register special Articles of Association, it is nevertheless used as a model in drawing up such special Articles, and the exact wording of many of the Articles is often adopted. Under Table A the subscribers to the Memorandum of Association are directors until directors are appointed, and it lies with them to appoint the first directors. At the first ordinary meeting all these first directors retire and one third of the body in each subsequent year, those retiring being eligible for re-election. A director vacates his office if he holds any other office or place of profit under the company, if he becomes bankrupt, or if he be concerned in, or participates in the profit of any contract with the company, moreover any director can be removed by a special resolution of the shareholders. Directors are required to keep proper accounts, and to submit to the members once in each year an income and expenditure account and balance-sheet. With directors lies the power of making calls as required for the purposes of the company. Shareholders under Table A are entitled to fix the remuneration of directors, to appoint all auditors except the first, to inspect the accounts of the company, and its register of members and mortgages, to have copies of all special resolutions, to increase by special resolution the capital of the company, and to determine as to the winding-up of the company. Respecting companies governed by the Companies' Clauses Consolidation Act the spirit of the Act is, with regard to the respective rights and duties of directors and shareholders, similar to that of the 1862 Act. On two points,

however, a difference must be noted: first, the shareholders have not the power they possess in registered companies of increasing their capital by special resolution, the powers of this class of company with regard to capital are defined by their special Acts of Parliament, and when such powers are exhausted it is necessary to obtain a New Act; secondly, the shareholders have not power as in registered companies to determine that the company shall be wound up; if they deem a winding-up desirable they can only petition the Court, within whose discretion it lies to accede to or dismiss the petition.

Such are shortly the principal statutory provisions respecting the rights and duties of directors and shareholders. These, however, are in addition to and not in place of the duties founded on the Common Law of Partnership. By the law of partnership the most perfect good faith is required between partners in all dealings connected with the partnership, and no one is allowed to benefit at the expense of his partners unless in perfect good faith and without concealment. This principle is extended by the Courts rather than narrowed when reviewing any question between directors and shareholders, for shareholders are partners without the same rights of intervention which are possessed by an ordinary partner. Directors are in fact treated by the Courts to some extent as trustees for the shareholders, and are bound to employ the property which, though not invested in them, is subject to their control, for the purposes for which it is entrusted to them. Their powers of making calls, forfeiting shares, &c., must also be exercised with a *bonâ fide* intent of benefitting the company as a whole. On this principle of trusteeship directors have been required by the Courts to account to the company for profits made by them at its expense. They have also been held responsible for losses made by employing assets for purposes outside the constitution of the company. They are not liable for losses arising through errors of judgment, but if culpable negligence or wilful default can be proved, the Courts will require them to make good the loss arising therefrom. Complicated questions arise on this branch of the subject as to what extent directors are liable for the acts of each other, but it would be beyond the proper scope of my lecture to enter upon them. Before quitting this division of my subject it will be perhaps interesting that I should say a few words respecting Auditors. Under the Companies Clauses Act the appointment of auditors is compulsory; two must be appointed, originally by the directors, but afterwards by the shareholders, who must be shareholders, and one must retire each year, but the retiring auditor is eligible for re-election. The theory of their office is that the balance-sheet shall be delivered to them, which they must either confirm or report upon. In practice, as you know, the auditor usually constructs the balance-sheet, which he certifies under the Companies' Acts, 1862. The appointment of auditors is not compulsory; it is left to be determined by each company in its Articles of Association. Under Table A. auditors are required, who in addition to similar powers to those under the Companies Clauses Act, are also entitled to examine the directors and other officers of the company in relation to the accounts. The legal effect of an audit is thus laid down in the case of *Spackman* v. *Evans*:—"The auditors are agents of the shareholders so far as relates to the audit of accounts, and for the purpose of the audit they will bind the shareholders. But they are not the agents of the shareholders so as to conclude the shareholders by any knowledge which in the course of the audit they may have acquired of any unauthorised acts on the part of the directors. It is no part of their office to inquire into the validity of any transaction appearing in the accounts of the company."

Having thus reviewed the law regarding the formation of companies and their internal machinery when formed, we now come to the third division of my subject, viz. their external relations, or the law affecting relations of companies with non-members.

In this respect we meet with a material distinction between the Law of Companies and the ordinary Law of Partnership. In a partnership each member of the firm is regarded as its general agent for the ordinary business of the partnership, and can enter into binding contracts on its behalf. In a company this power is restricted to the few members who are entrusted with the management. The general principle guiding the dealings of the outside world with a company is that the directors and their officers are its only agents, who have power to bind the company within the limits of their real or apparent authority. An old legal principle is that any one acting with delegated authority cannot transfer his authority to a third person; but this is departed from in the management of companies, as directors, though agents only of the shareholders, can employ managers, secretaries, and other officers, who can enter into binding contracts as agents of the company. Such a contract would not, however, be binding on the company if the agent were manifestly acting beyond his authority, or if there were any irregularity in his appointment of which the party dealing with him was cognisant. Within these limits a contract is as valid with the agent of a company as with a member of a private firm. What are the limits of authority is, however, a very important question for non-members. The limits to the authority of directors are prescribed in the various Acts of Parliament and Articles of Association, and for anything outside the ordinary course of business it is necessary for non-members to ascertain whether the proposed transaction comes within those limits. By a decision of Lord Wensleydale it is settled that the public are bound to ascertain the powers of directors, and any contract outside those powers cannot be enforced. A distinction is, however, clearly drawn between acts which are *ultra vires* and acts which are irregular, and, if any act is within the powers of directors, persons dealing with them are not bound to inquire whether the directors are properly appointed or whether they are exercising their powers in the precise manner prescribed by the company's regulations.

Such are the general rules governing the relations of a company with the outside world. We will now consider some special matters:—

1st. Arbitrations.—Companies incorporated under the 1862 Act have power to refer any disputes to arbitration, but there is no like power given under the Companies Clauses Consolidation Act.

2nd. Bills of Exchange.—Unless specially authorised, companies are only entitled to accept and endorse Bills of Exchange, if the business be such that it cannot be carried on in the ordinary way without the use of bills. If the business be not of this description, accepting or endorsing a bill would be *ultra vires* and not binding on the company. This has been so held in the case of a mining company, a gas company, a waterworks company, a railway company, and several others.

3rd. Borrowing money is a power which must be exercised strictly within the limits of the Act of Parliament or Articles of Association. In companies governed by Special Acts the borrowing powers are invariably limited by the Acts. In a registered company shareholders can authorise their directors to borrow, though such power may not be given by the Articles of Association.

4th. Extension of business.—It is, of course, open to a private partnership to extend their business in any new direction, but the directors of public companies have not the like power. A company formed by registration cannot, as I have before mentioned, go outside the lines of its memorandum, and, with respect to other companies, neither the directors nor a majority of shareholders have power to change the character of the business. As illustrating this, I may mention that a life assurance company has been held not bound by marine policies issued by it, though sanctioned by general meetings of the shareholders.

The foregoing refer to the liabilities of companies to the outside world to fulfil what they have undertaken by their agents. Their is another class of liabilities which it is necessary to consider, viz. those arising from what by

lawyers are called *torts* and *frauds*. I have already mentioned that the relation between a company and its directors and officers is that of principal and agent. A principal becomes responsible in respect of a tort or fraud, if one of three conditions can be established, viz.:—

(1.) That the principal authorised it in the first instance.
(2.) That he made it his own by adoption.
(3.) That it was committed by the agent in the course, and as part of his employment.

These conditions obtain strictly in the determination of a company's liability. It will be obvious that the first two conditions—that the principal authorised the particular wrong or fraud, and that the principal adopted it when committed,—turn entirely upon the evidence in each particular case. It is doubtful whether either of these conditions could apply to a company, as it could not authorise or adopt a tort or fraud; such a course would be *ultra vires*. With regard, however, to the third condition of liability, viz., for acts not specifically authorised, but committed by the agent in the course and as part of his employment, a company is clearly liable. The bone of contention in every case is, whether the act complained of was committed by the agent in the course of the business to which it was his duty to attend. The following are illustrations of the application of this principle to torts; a banking company has been held liable for the wrongful detention of bank notes by its servants, and for the loss of securities entrusted to and carelessly kept; a canal company has been held liable for wrongful seizure of goods made by its servants for non-payment of tolls; a railway company for unlawful arrests; a gas company for negligence in laying down gas pipes; an omnibus company for reckless driving; and a telegraph company for transmitting a libellous message.

The law is not so clear respecting the liability of a company for frauds and misrepresentations made by its directors. Of course directors have no authority to make misrepresentations on a company's behalf, nevertheless, as between a company and an innocent outsider, the company has been held liable for the misrepresentations of its directors. In a case carried to the House of Lords, the then Lord Chancellor, Lord Cranworth, based his judgment against the company on the ground that the general interests of society demanded that the representations of directors shall bind a company, although the shareholders might be ignorant of their falsehood. Other of the Lords, however, based their judgment on the adoption of the directors' reports by the shareholders, as is customary at general meetings, which would seem to imply that shareholders are not liable where they have not formally adopted the directors' misrepresentations. On this point the law is still undecided; Mr. Justice Lindley, in his book on Partnership, considers the ground taken in Lord Cranworth's judgment the more solid.

A point on which it may be well to say something is the use of the seal of a company. By the common law, a corporation was not bound by any contract not under the corporate seal. This principle was rigidly enforced by the Courts, and is still applicable to many corporations now existing, which are not governed by the Companies Clauses Consolidation Act, or by the Companies Acts; the only exceptions allowed were in matters of a trivial nature, such as for the purchase and sale of goods in the ordinary course of business. By the Companies Clauses Consolidation Act, however, the law as to the use and necessity of the seal is assimilated to the law of private concerns; where a contract would by law be required to be under seal if between private persons, the corporate seal must be used; where between private persons it would be binding if in writing, or by parol, it is similarly made binding on a company if in writing or by parol. By the 1867 Act, similar regulations were made applicable to registered companies.

Having thus seen for what a company is or is not liable to the outside world, it now only remains under this part of my subject to consider the extent of that liability. In an ordinary partnership, as you know, the law refuses to recognise the firm as distinct from the persons composing it, and if a judgment be obtained against a firm, it can be enforced against the separate property of any individual member. Unincorporated companies are regarded by the law only as partnerships, and each individual shareholder is similarly liable. Nevertheless the members of several unincorporated companies have succeeded, in spite of the law one may say, in virtually limiting their liability. This has notably been done by Insurance Companies, by the terms of their policies, wherein it is stipulated that the creditor shall only be entitled to enforce his claim against the funds of the company, or against the shareholders, to the extent of the amount unpaid on the shares held by each shareholder. This would of course only apply where the creditor had by such special contract so limited his power of enforcing his claim; and for all other liabilities the shareholders would be liable to the full extent. Many cases of this kind arose in the liquidation of the European and Albert Insurance Companies, and of the many companies amalgamated with them; the liability to the policy-holders was limited by the special contracts, but the liability for the costs of the liquidation was unlimited.

In corporations and incorporated companies the presumption is all in favour of limited liability; as Lindley expresses it, "while it was lawful by the common law for the crown to create a corporation, the crown had no power at the same time to render the members individually liable for its debts." The members of an incorporated company then are not personally liable for its debts, except so far as they are made liable by statute. In this respect the liability of the members of companies governed by the Companies Clauses Consolidation Act is limited to the amount unpaid on their shares in the capital of the company. Companies registered under the 1862 Act may according to the wishes of the founders be registered with either unlimited or limited liability; in the former case their liability is of course as extensive as their means; in the latter case, if the limit is by guarantee, the liability is to the extent only of the individual guarantee; if the limit is by shares, to the extent of the amount remaining uncalled upon the shares. There is an important distinction, however, between the liability of a shareholder under the Companies Clauses Act and under the 1862 Act. Under the Companies Clauses Act, a creditor, if he cannot satisfy his judgment against the assets of the company, can issue execution against an individual shareholder to the extent of the amount such shareholder is liable to contribute to the capital of the company. Under the 1862 Act, a judgment against a company can never issue against an individual shareholder; the liability of the latter is a liability only to contribute *pari passu* with others to the assets of the company, and this liability can only be enforced by a creditor by petitioning the Court to wind-up the company.

Some exceptions to the above principles of liability exist which should be borne in mind, viz.:—

1st. A company can be registered with limited liability for the members, but with unlimited liability for the directors. This kind permission was accorded by the Amending Act of 1867, when the country was decrying directors for the disasters of 1866; I have never known, however, a case in which this provision has been acted upon.

2nd. If a company under the 1862 Act carries on business for six months with less than seven members, all the members cognisant of the fact are severally liable for the debts contracted by the company during that time, and may be used accordingly.

3rd. Any officer of the company who suppresses the word limited when incurring any liability for a company is liable for the amount thereof, unless it be duly paid by the company.

4th. The liability of limited Banking Companies issuing notes is unlimited in respect of such notes.

5th. When companies with unlimited liability register as limited under the Act, the liability of the members for matters occurring before such registration remains unlimited.

A few words as to the commencement and duration of a shareholder's liability. A distinction should be noted between the liability of a new shareholder in a company, and that of an incoming partner in an ordinary partnership. In the latter

case the new partner cannot, unless by special agreement, be sued for liabilities incurred prior to his joining the firm. A shareholder buying shares, however, takes them with all liabilities thereto pertaining, and cannot repudiate liabilities incurred prior to his membership. A shareholder's liability ceases under the Companies' Clauses Act when he ceases to be a shareholder, but, under the 1862 Act, it continues for twelve months after his retirement from the company in respect of liabilities contracted during his membership, provided the existing members cannot discharge them; his liability is, however, limited to the amount unpaid on the shares transferred by him.

Having thus studied the birth, the internal economy, and the external relations of companies, it now only remains to consider their death and burial, or what in legal language is termed their winding-up and dissolution. I shall not enter at any length into this part of the subject, as I see by the list of lectures that you will have the advantage of hearing a lecture by Mr. Fisher on "Liquidators and Trustees," and that part of Company Law which refers to winding-up falls naturally into the consideration of liquidators. In this closing portion of a company's life, the two streams of companies which we have followed—those incorporated by registration, and those by Special Act—amalgamate and are alike dealt with under the Companies Act, 1862: all partnerships, associations, and companies of more than seven members, excepting only Railway Companies and a few unimportant exceptions are wound-up under the provisions of that Act. Respecting Railway Companies there is a Special Act enabling the directors of insolvent companies to submit schemes for the settlement of such companies' affairs to the Court of Chancery. The Court having jurisdiction in the winding-up of companies is the Court of Chancery, except only that cost-book mining companies are wound-up in the Court of the Vice-Warden of the Stannaries. In the case of other companies, moreover, the Court of Chancery may direct, after the winding-up order is made, that the proceedings shall be continued in the Court of Bankruptcy, or in the local County Court. There are three modes of winding-up, viz. voluntary liquidation, voluntary liquidation under the supervision of the Court, and compulsory liquidation. Registered companies, which include companies registered under the repealed Joint Stock Acts 1856, 1858, as well as those under the 1862 Act, can be wound-up in any one of these three ways; but unregistered companies can only be wound-up compulsorily, or, as it is termed, by the Court. I shall not anticipate what Mr. Fisher will say in defining accurately these three kinds of liquidations, but will only say generally that in a voluntary liquidation the liquidator is almost unfettered, but his actions can be reviewed by the Court on the application of a creditor or contributory; in a compulsory liquidation the liquidator is bound hand and foot, and is compelled to apply to the Court for its sanction at every step; in a liquidation under supervision, he is left free to the extent and fettered to the extent which the Court in each particular case thinks fit. A voluntary liquidation ensues when the shareholders pass a special or extraordinary resolution that the company be so wound-up; a liquidation under supervision is brought about usually when any shareholder or creditor, dissatisfied with the conduct of a voluntary liquidation, makes application to the Court thereupon; a compulsory liquidation or liquidation by the Court is decreed by the Court alone, and may be applied for by the company, by one or more creditors, or by one or more contributories. This latter is the new name which shareholders take when liquidation commences, the term is wider than the term shareholders, as under various decisions many non-shareholders, have been held to be contributories. The circumstances under which a registered company will be wound-up compulsorily are five, viz.:—

1. When the company has passed a special resolution requiring it to be wound-up by the Court.
2. When the company does not commence business within a year of its incorporation, or suspends its business for a year.
3. When the members are reduced in number to less than seven.
4. When the company is unable to pay its debts.
5. Whenever the Court is of opinion that it is just and equitable it should be wound-up.

In an unregistered company the first and third of the foregoing do not apply. In connection with the inability of a company to pay its debts as a ground for winding-up, considerable litigation took place some years ago in connection with the European Assurance Society, which, although in an insolvent condition, on a just valuation of its liabilities, had nevertheless paid all claims which fell due, and on that ground the Court refused to make a winding-up order. An Act has since been passed under which the Court can order a Life Insurance Company to be wound-up when it is proved to be insolvent; and in determining whether it be insolvent, the Court can take into account its contingent and prospective liabilities; but as regards other companies, the principle remains that the debt on the inability of the company to discharge which the petition is based, must be a debt actually due, not a prospective or contingent liability. The Court acts on different principles in regard to granting a winding-up order, according as the petition is presented by a creditor or a contributory. When a petition is presented by a creditor, and his debt is undisputed or has been established by judicial proceedings, the Court will make a winding-up order almost as a matter of course; when, however, the petition is presented by a contributory, the Court, beyond being satisfied that the company is within the statutory provisions justifying a winding-up, will consider whether the winding-up order is necessary or expedient in the interests of the shareholders generally. When a winding-up order is made, the next step is the appointment of liquidator, but this brings me to the point at which the subject of Mr. Fisher's lecture commences. As the ground I have travelled over is certainly extensive enough to afford you food for reflection, I shall not ask you to go any further with me. In conclusion, I have only to express my hope that the hasty view the time at my disposal has enabled me to give you of Companies and Company Law may be of some use to you in qualifying for your profession.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

The Inaugural Meeting of this Society was held on the 12th Feb. 1883, at the Memorial Hall, Albert Square, Manchester, when the President, Mr. Adam Murray, delivered the following address:—

My first duty is to thank you for the gratifying distinction which you have conferred upon me in electing me President of your Society.

I could have wished that your choice had fallen upon some one with more leisure to undertake and to discharge the duties of the office.

The name of one was suggested who would very ably have filled the position, and who, I understood, was intended to be proposed for it. His nomination would have been received with satisfaction by all, and had I thought that any other course would have been taken, I should have endeavoured to attend the meeting to urge my views.

At this particular season of the year, when we are all so much occupied, I felt that I could not give the time and attention to you which I should like.

My first thought, therefore, was to ask you to relieve me, and elect some one else, because I considered you ought to have an address worthy of the occasion, and which I did not see my way to find leisure for the preparation of.

Had I come to this determination hastily, I do not think that I should have been willing to adhere to it, because my doing so would have looked like indifference to the success of your Society, which would have conveyed an impression so contrary to my thoughts; and I did not see that I ought to set up my

own judgment against the opinion of so many, as to do so would have been worse than the case of the one juryman who could not convice the others that they were wrong in their view, and said he never in his life met with eleven such obstinate men.

And now, in congratulating you (as I do most heartily) on the formation of your Society, let me say that, so far as health and opportunity will permit, I shall be glad to do all that I can to promote the objects of your Society, the interests of the profession, and of those who are coming forward to take their places in it.

Such Societies as yours are not only desirable, but indeed are called into existence almost of necessity by the prominent position which accountancy has now assumed.

There is quite as much need for them as for those for law students, civil engineers, architects and surveyors, medical students, scientific students and others, and will be attended with mutual advantages alike to students and to those advanced in the profession.

Those students who have qualified themselves for and have passed their Preliminary Examination have obtained such a general knowledge of arithmetic, mathematics, and other subjects as to fit them for entering the service of an accountant, and taking a practical part in the duties of the profession with a view to their Intermediate and Final Examinations in the following subjects, as prescribed by the bye-laws:—bookkeeping and accounts, auditing, partnership and executorship accounts, liquidation, trusteeship and receivership, bankruptcy and common law, mercantile law, arbitrations and awards; and every person who obtains a certificate of his having passed the Final Examination, will be entitled to be admitted an Associate of the Institute of Chartered Accountants in England and Wales.

The questions for the Final Examination in July last were given in full in *The Accountant* of the 2nd of September, and these questions are such that we may all profit by the study of. Students will do well to make themselves masters of the whole of them, so as to understand them thoroughly, because, although they may give correct answers in writing, they will be further required to give *vivâ voce* answers in support and explanation of their written answers.

And here I would make mention of the material assistance which Manchester students have received at the Owen's College Evening Classes of the Victoria University.

Since the granting of the Charter to Accountants, in May, 1880, Principal Greenwood, the Vice-Chancellor of the Victoria University, has taken special interest in the object of the Charter, and having seen the importance of providing instruction to those preparing themselves for examination, he made the following reference thereto in his report of the Evening Classes in May last:—

"In the prospectus of the session which ends to-night it was pointed out, at the suggestion of the Secretary to the Council of the Institute of Bankers, that certain of our classes, viz, those in algebra, political economy, and mercantile law, would be found serviceable to candidates for the certificates given after examination by the Bankers' Institute. As the number of students in all these subjects shows an increase, it may be inferred that a certain number of them were, in fact, candidates for the examinations referred to, and I may repeat here the intimation of the prospectus, that 'additional classes in other subjects included in the certificate examination (in banking) will be instituted if a sufficient number offer themselves at (or before) the beginning of the next session.'

"Another body, closely resembling the Institute of Bankers, has recently been incorporated by Royal Charter—I mean the 'Institute of Chartered Accountants in England and Wales,' the Ins itute contemplates the establishment of an examination test for admission into their body. This examination will be of wider range than that of the Bankers' Institute, including in addition to what I may term the professional subjects (such as arithmetic and mathematics, bookkeeping and accounts, the principles of mercantile law, and the law of bankruptcy) an examination in general knowledge, including languages and physical science. Almost all of the subjects enumerated are already found in the subjects taught in our Evening Classes, and when the Institute of Accountants has fully organised its examinations, I have no doubt that we shall be able to make complete provision for persons engaged in preparation for it."

The Vice-Chancellor having since then placed himself in communication with accountants, classes were formed specially adapted to accountancy students. I look upon it as an exceedingly fortunate circumstance that those in Manchester and the neighbourhood intending to pursue the profession, have thus the opportunity of receiving the valuable aid which the learned professors are competent to give. Some who have availed themselves of the privilege have acknowledged their obligations, and also that they would not otherwise have been so well prepared for their examination. No doubt others also will desire to make use of these classes. How many there are among the old accountants who would gladly have embraced the same opportunities in their young days, but at that time accountancy was comparatively little practised, and we were left to improve ourselves as best we could with little or no assistance. Before passing from the subject of examinations, let me caution students not to rely too much upon the knowledge acquired for their examinations. Ordinary competitive examinations have their advantages, no doubt, but the man who takes the highest number of marks does not always turn out equally well with those below him. The success in such examinations may be attributable in a great measure to the "power of memory," proficiency in mathematics, and would not alone be evidence of brain power, because the student may simply have gone through so much work by rule. Unless the reasoning powers have been brought into exercise, the student has not derived the greatest benefit.

In our Institute Examinations there are more reliable tests, and there is not the same objection to them as to ordinary examinations: this being provided against in the subjects selected—for which intelligence and thought are required; and there is also this difference, that while you are receiving theoretical instruction, you are simultaneously applying your knowledge in practice.

Students must not only have stores of knowledge, but they should have the power to reason. Well, I do not know in what better way this power can be strengthened in our students than by the holding of meetings, debates, and the delivery of lectures, &c. You have, I believe, within yourselves all the elements of success in the ability and the intelligence possessed by the ordinary members of your Society. You need never be at a loss for subjects for discussion, and if the Committee can include a few lectures in their programme, I venture to say that many of your honorary members will cheerfully give the time, and be prepared to assist in our mutual improvement.

There was an inquiry in *The Accountant* a short time since, "Whether there was any good book on Corporation Accounts which would be useful to a Borough Auditor?" Some of those already engaged in, or others who may yet be concerned in, the audit of Corporation accounts, might give the members of the Society the benefit of their experience. There should be one main object, that is, to make our information common property. We are all students, more or less, and while many of us during our practice have been assisting to teach others, we have throughout been constantly adding to our own knowledge and experience, which we know will never be fully completed.

We have, through the medium of *The Accountant*, the opportunity of knowing what other Students' Societies are doing, and our proceedings would likewise be read with interest.

Our Society ought not, and, I believe, will not be behind similar societies, as it has advantages in numbers, and otherwise, equal to those of any other provincial centre.

An incentive to be successful in your examinations may not be required, but if to hold out any inducement is desirable, I am prepared to place at the disposal of the Committee the nucleus of a fund, to be applied in such manner as they may

determine, in prizes for essays, either on general accountancy, some particular branch, or for the highest number of marks which any candidate may obtain.

In the Institute Bye-laws power is given to employ the funds of the Institute in the foundation of prizes, scholarships, or exhibitions in connection with the subjects of the examinations.

I am glad to see that Mr. Fisher, of Birmingham, has proposed for the consideration of the Council of the Institute that a certificate of merit be issued to all candidates at examinations who have obtained, or shall obtain, more than a certain number of marks, such number to be settled by the Examination Committee.

It may be useful also to mention that the Council of the Institute has resolved that the questions at the examinations in December last shall be printed and issued.

I may further state that the solicitors of the Institute are still of opinion that the Council have not power to grant certificates to Associates not in practice, and they suggest that if it be found desirable to issue certificates to non-practising members, a bye-law shall be framed authorising such issue.

The Birmingham Society is doing good work; that at Newcastle-on-Tyne has commenced well; the proposal to form a London Society has been mooted, if the formation has not actually taken place; and I hope we shall hear soon of the inauguration of the Liverpool Society, which has already been formed.

The Accountant newspaper is perused by a large number of subscribers with interest and profit, and it would be an advantage if it were more frequently supplied with papers contributed by accountants, relating more especially to any new experience they may have had upon any particular question which would be interesting and valuable to others.

A very admirable course of Commercial Law Lectures has been delivered at the Athenæum during this winter by Mr. Byrne and Mr. H. Spencer Wilkinson, including subjects of interest to those engaged in commerce as well as to law students, accountancy students, and others. The lectures were largely attended, and I am sure with advantage to all who heard them. That upon Bills of Exchange contained much information upon a subject which requires great consideration by students. From an accountant's point of view the subject would, of course, have been somewhat differently treated. Young accountants have usually considerable difficulty in connection with Bills of Exchange in the accounts of a large commercial house in liquidation, and in early experience they are not easily understood in preparing a statement of affairs. Students should not omit the opportunity of hearing such lectures as those which were delivered at the Athenæum.

A correspondent, in a recent number of the *Manchester City News*, drew attention to the great absence of a knowledge of bookkeeping, and asked why the study of it in our schools has so long been made subordinate to other or less useful subjects. He advocated the forming of classes for the special study of commercial bookkeeping, and the delivery of lectures thereon by experienced clear-headed business men, and urged the importance of young men giving their attention to the subject.

When I asked why bookkeeping is not taught in schools, I have been told, We do not undertake it, because to teach the theory is of very little value, and in practice there would be so much to unlearn of the theory which might be taught at schools. The suggestion of the writer to the *City News* has been already anticipated. At another Manchester college the value of instruction of this kind has been recognised by the principal, and the services of a well-known Manchester accountant being secured, he has during the last year taken a general direction of the business instruction at the college, and has given a course of theoretical and practical lectures to those students who are either preparing for accountancy or for commerce, or who are desirous of obtaining a thorough and practical knowledge of bookkeeping for the regulation of their own private affairs or otherwise. The importance and advantage of instruction of this kind, given by one of our profession having large and varied practice, must be obvious.

I am authorised to say that the lectures have given entire satisfaction, the lecturer being eminently qualified for the position. More attention to bookkeeping and accounts as a part of ordinary education will, in my opinion, be forced upon us by the necessities of the times and the changes in business consequent on the reduced profits of many individuals and firms engaged in manufactures and commerce. All vocations are crowded to excess, and existence becomes more difficult, the competition for employment having to be struggled against. Therefore it follows that the standard of attainment in knowledge and practical skill will be raised, and those who from their qualifications are likely to be the most useful will have the preference, where business expenses have to be reduced by employing a fewer number of assistants.

The example which I have referred to as having been set by one of our colleges may well be imitated by the older universities, as well as the younger academical bodies, such as the London University, that at Liverpool, and elsewhere.

Who will say that the time may not come when there will be at our Victoria University a chair of bookkeeping and accounts with a practical accountant as the professor!

What the Germans call the "Bread Studies," that is, those that can be made immediately practical and profitable, are becoming more and more necessary in education, which in future will be much more in accordance with the requirements of the times.

Then, again, how valuable would a knowledge of bookkeeping and accounts be to so many in various stations of life. Sometimes we find barristers and solicitors familiar with accounts, but these are rare exceptions. Such a knowledge would be very useful to members of town councils. How many are there in our own town council or among the ratepayers who could understand the corporation accounts in the incomplete way in which they were prepared and issued for so many years, or could form an opinion as to the life annuity account of the water committee? An ex-mayor, in a letter to one of our newspapers, a few months since, stated that the life annuity account had been profitable, but this is not shown by the accounts, and he is believed to have hazarded an opinion which will not be borne out by the facts.

There is, perhaps, an inadequate supply of law, but there is a deficiency in the knowledge of accounts in our Town Council, and a few retired accountants, or of those who can give sufficient time for their business, would be a useful addition thereto. The general experience is that business knowledge and usefulness are more largely possessed by members of the Council of our smaller Boroughs. It may be that the representatives are less engaged in business, and thus more at liberty to attend to their public duties, or that they are brought into closer contact with the ratepayer, who are more exacting in their requirements. How valuable such a knowlege of accounts would be to directors of public companies! Many of them, from not having such knowledge, are not able to understand the accounts and balance-sheet of a company as they ought to do, and consequently they have not the knowledge of the affairs of the company which they might have if they had received a training in accounts.

Accountants have much to gain and nothing to lose by a knowledge of accounts becoming more general. Their work would, no doubt, then be much more appreciated than is at present the case. When suggestions are made to committees or directors, the acquiescence by them in proposed changes is too often from passive indifference, rather than from active approval, of something which is seen to be an advantage.

We may expect a considerable change in one branch of our profession, "bankruptcy and liquidation," as, judging from what was said by the President of the Board of Trade at Swansea ten days since, a new Bankruptcy Bill is likely to be introduced into the House of Commons during this session.

The main alteration will probably be the abolition of the

liquidation by arrangement clauses, and if it be the general opinion that such a change should be made, accountants cannot have any objection. On the contrary, they would willingly encourage any amendment which would bring about economy in the costs of liquidation and secure the largest dividends.

It is satisfactory to observe that Chartered Accountants are now receiving judicial recognition, as pointed out in *The Accountant* of the 3rd inst., the learned Master of the Rolls having delegated to the President of the Institute the duty of nominating a Fellow for the purpose of examining certain accounts. In like manner another of the judges said, about ten days since, on an application in a winding-up case, "that a partner in a well-known firm of accountants in London had been appointed liquidator, and it could not be supposed that he would do otherwise than disharge his duty with the utmost impartiality."

And now, before bringing this fragmentary address to a close, let me offer a few words of advice to students. Having had, in the first place, a good general education, see that the knowledge you build upon it has a wide and discursive range. Be ready listeners to those who, from their experience, are competent to impart valuable information to you. Those in earnest will avail themselves of the experience of others. While being prepared to act on your own judgment, if necessary, do not omit to take counsel with others, and thus lessen your responsibility. We may at times form opinions which we may see reason afterwards to change, as we do not always arrive at the right conclusion in the first instance. As an example, take the question arising out of the additional income tax granted last year; whether it is a further charge for the second half-year on y, or whether the tax is at the uniform rate of 6½d. for the whole year. Seeing that there is such a difference of opinion upon the subject, it is evident that many of the letters of newspaper correspondents, and even the comments of editors themselves, have been written without properly considering the question or studying the Acts of Parliament and the instructions issued by the Board of Inland Revenue. The difficulty in arriving at a correct conclusion has been increased by importing into the question the date of the 1st of January, when the tax is *payable*, which has not any relation to it at all, the only date to take into account being the *due* date of 5th of April, which is the end of the financial year. Students should be willing workers, ready to give their best assistance when there is a pressure of work. Such will gain their experience early, and thus obtain promotion by making themselves valuable. In this way they will command and receive encouragement and assistance from those with whom they are associated, and in like manner they should extend the same consideration to those whom they may afterwards have the care of. Be manly and dignified; modest and respectful; making yourselves agreeable and attractive to all with whom you may be brought into contact. Do not delay your reading until the eve of your examination. It is important to read well with the reasoning powers and the imagination awake. Having had a mental training and discipline by the stores of knowledge acquired, the mind should be strengthened by bringing that knowledge into practical use. More than teaching is required. You must train yourselves and understand what you do. Suggestiveness should be cultivated, and the habit of viewing a subject in the various ways in which it is capable of being considered, in order that you may not form a one-sided opinion.

Among ourselves, as a body in Manchester, it is pleasant to think that we have had so much regard for each other, that we have been unwilling to be placed in competition with any of our brethren. This feeling should not be disregarded, and all our dealings with each other should be conducted with fairness and honesty. An accountant told me recently that he had refused to be nominated for an important audit until assured that the former auditor would not offer himself for re-election. It is within my own knowledge that a similar appointment was positively refused at a meeting of shareholders, in a case where a change was desired without there being any good ground why the auditors, who had held office for a good number of years, should not be continued.

Success will only be achieved by persevering application and study, but diligence and attention will accomplish much. When Opie, the painter, was asked by a student what he was in the habit of mixing his colours with, he replied, "With brains." Students in accountancy, or anything else, may apply this advice. They will find that little advancement will be made unless they work intelligently. I think it was Carlyle who said that, "Work is the mission of man upon this earth." It will maintain the elasticity of the mind, and thus continue the spirit of youth and the freshness of enjoyment into later years. Most men who have led active lives, and have had frequent calls on their capacity for work, will say that they have had great enjoyment throughout it all. Accountancy is attractive by reason of the diversity of the work, and the change of thought in connection with its various branches. There are probably few accountants who would wish to change their vocation. As experience increases, the interest in the work grows, and the conclusion arrived at by many is, that there is not any other occupation to be desired in exchange for our own.

I will not attempt to say anything upon the various branches of practice in our profession. You will, I hope, have addresses from time to time by others upon all the duties which devolve upon accountants.

A duty is laid upon students of maintaining the prestige of the profession by upholding its character, and doing all they can to preserve a high professional standard. I am glad to be present on this occasion to testify to the interest and sympathy with which I regard your Society, and which I doubt not will be supported and encouraged by the profession generally. I am sanguine that your Society will have a prosperous and useful career, and that in due time many of the ordinary members will occupy prominent positions among the Manchester Accountants of the future.

Mr. David Smith, the Vice-President, said:—It is a matter of sincere congratulation to all who took any part in the commencement of this Society to see it so well inaugurated. We have already about 100 members and what is also very gratifying, we have the nucleus of a library fund amounting to about £25. We are greatly indebted to our respected President for the valuable counsel he has given us this evening. He has evidently a great liking for the profession, without which none will be able to do much good. I think we may take Mr. Murray as a very good illustration of what may be attained by industry and perseverance. He has told us these societies have become a necessity in the great commercial centres of our country, and such is the case. There is no doubt that commerce is a very different thing now from what it was in time past. All modern appliances and inventions have tended to revolutionise commerce. Chartered Accountants are the outcome of the new state of things, and we have to prepare ourselves for the new and importa t duties which are devolving npon us. There is a great future for accountancy. In the past we have been looked upon as mere bookkeepers, but in the future possibly we shall be looked upon as advisers also in the matters of commercial transactions. Mr. Murray has already referred to the valuable aid which students may get in Manchester. It is a good thing that we live in a university city—a university that is prepared to lay itself out to help the students of our profession, as well as of others. Another advantage we shall possess arises from the fact that we shall probably have sittings of the High Court of Justice in Manchester more frequently than was formerly the case; and if the law business is transacted in Manchester, we shall share in the advantages which that will secure for this part of the country, and we may take it that altogether in the way of teaching and in the way of business there is a great future for properly qualified accountants.

Mr. Murray has referred to the question of reduced profits.

There is no doubt a tendency in that direction, and I think that we, as accountants, will have to face it.

I echo heartily what our President said as to a liberal education. Remember that you, the members of this Society, have a great deal in your hands. The character of the offices which have your services is judged very often by your conduct, and in this way you have a great responsibility. I hope this Society will be the means of raising the character and improving the position of both the employers and the employed.

I have been asked to intimate that next Monday, the 19th, will be an ordinary meeting night of the Society; it is intended to have an open discussion. There will be no paper brought before you, the notice being too short for that purpose; but it is proposed to take up more fully the subjects touched by Mr. Murray in his address to-night, and to have a free conversation thereon.

Mr. Murray's paper will be published in *The Accountant* of next Saturday, so that members may have an opportunity of reading and considering it.

On the 5th March, the next ordinary meeting night, we hope to have a lecture from Mr. C. R. Trevor, F.C.A., on "book-keeping," which will be fully announced in due time.

Mr. Trevor on rising said:—I wish to testify to the great pleasure with which I have listened to Mr. Murray's address, I have no doubt great advantage will be derived from his varied remarks. Our work includes a very great variety of duties, which gives an additional pleasure to it; while on the one hand it taxes us to a great extent through our having to go from one class of business to another very rapidly, on the other the variety gives great relief.

The Society will be very useful to its members in that respect, inasmuch as it will be necessary to have a variety of subjects incidental to the various departments of accountancy work, which the members will not always be able to obtain in their own offices. It is very necessary that students should have an opportunity of being to some extent familiar with the great variety of work which we have to undertake, and in this respect the Society may be very helpful. Mr. Murray has remarked that we as accountants should regard ourselves as not merely performing certain perfunctory duties, not merely the mechanical checking of figures, but that we should look at the matter from an intelligent point of view, and think rather of our duties with a view to gaining the confidence of our clients. The *clerks* have great opportunities of gaining the confidence of clients, and they have to a very great extent the character of their offices in their hands, and it is important that they should have a courteous and intelligent readiness to make suggestions, in a modest quiet way, which may be useful to bookkeepers and employers in the offices in which they may be engaged.

It is important that there should be a very high moral tone. Anything wrong should be pointed out in a modest gentle way, but we should show that accountants are those with whom probity, truthfulness and secrecy as to the affairs of those by whom we are employed, are a predominant *sine qua non*.

I have great pleasure in moving that a vote of thanks be given to Mr. Murray for his valuable and interesting address.

Mr. Mather, on rising, said:—I take the liberty of rising to second that proposition. Mr. Murray reminded me of a German schoolmaster who had the habit on entering his school of always bowing and taking off his hat to his boys. His explanation was that amongst his boys there were the future statesmen, judges, and eminent merchant princes. He foresaw the future character in his boys, aud deemed it was right and fitting that he should pay deference to it. It struck me that Mr. Murray foresaw in the young gentlemen before him to-night the future members of the firm of Broome, Murray and Co., in Manchester. Mr. Murray said that we were all students, and should be so to the end of the chapter. I believe that I have learned more from practical work than I have learned from books. I know it is nothing to boast of, perhaps if I had learned more from books I should have had a much better position than I have now at an earlier period. I believe with Mr. Murray that there is no use having brains unless you use them. There is many a man who does not get on because he does not use his brains. I believe *work* does not kill anybody, but *worry* has killed thousands. When I hear of men failing from overwork, I think it is only over worry. If we could only keep our minds free from this worry, we might last a great deal longer. Another point which it is important for young accountants to remember is that of the moral responsibility which attaches to the profession. We must all have thought how frequently we are placed in a position when, by want of confidence and firm determination to decide upon what we know and feel to be right, we might do serious injustice to clients, of which nobody would be any the wiser. It rests with accountants to do justice or injustice in these cases, and we cannot too constantly bear in mind that our profession is one which involves constant moral responsibility. No one is entitled to be called a good accountant unless his moral character can be relied on wherever he goes. Anything which would deteriorate that, ought to be denounced as contrary to the profession of accounts.

Mr. Guthrie said:—I am glad to be able to support this resolution, not only for its own sake, but by way of expressing just a few words of congratulation on the inauguration of the Society, for I believe it will be the means of developing, in a very considerable measure, the abilities of the young men now growing up. The particular matter for congratulation, and one which augurs most for its success in the future, is the fact that it was initiated by the students themselves. It was not the suggestion of principals, or of any councils, or committees, but it came from those who are intending to make something of themselves, and with that intention heartily and earnestly persevered in, there is no room for misgiving as to the consequence. They may all be assured that there is nothing but satisfaction in the older members of the profession (not that I am so very old myself) in the fullest development of the younger men.

In London we will shortly see a society of a similar character; Birmingham has led the way, Manchester has very rapidly followed, and, as in all good things, London will follow after.

I do not know at the present moment whether this is the occasion to go into a justification of the institution of the Charter, but, so far as its advantages are concerned, they are very rapidly exhibiting themselves. We have not only gained the recommendation which the President mentioned to you, and quoted as valuable to the profession, namely, the fact that one of the highest judges in the land had referred to the President of the Chartered Institute as to the selection of a Fellow of the Institute to settle a point which was then in Court, but other high authorities have also gone so far as to confer with representative members of the Institute as such, on the subject of contemplated legislation, in a department of legislation having special interest to accountants, but which at this time it may perhaps not be appropriate more particularly to indicate. But the circumstance is a very satisfactory one as showing the way in which accountants are establishing a position in the land through the instrumentality of the Charter which we now hold.

I would, just before sitting down, desire to emphasise in every way possible the exhortations which came from the chair, and which were also dwelt upon by Mr. Trevor, that we should all of us hold before our minds not only the bare subject of figures and their applications, but also remember our human relations to each other, and cultivate a spirit of chivalry within the circle we occupy, so that in the exercise of our practice we may have mutual pleasure, and cultivate mutual regard and consideration, coincidently with the making of our separate gains.

I hope that all the young men will try and develop habits and manners and modes of dealing with each other which will make them worthy of the confidence which is entertained as to the future.

Mr. David Smith, the Vice-President, on rising, said:—I am sure, gentlemen, I need not put the resolution, but you will

carry with acclamation, "That the best thanks of this meeting be given to Mr. Murray for his address this evening."

Mr. Higson, the Chairman of Committee, said he thought there was one way in which they might supplement this hearty vote of thanks to Mr. Murray, and that was by every one, who had not already done so, putting down his name as a member before he left. Mr. Piggott would be very glad to receive the names, and Mr. Cooke would be very glad to receive the half-guineas.

Mr. Murray, in returning thanks, said:—It gives me great pleasure—the fact of this large meeting—and I can only regret that the address was not so able as I should have liked, partly from not having the leisure at this particular time of the year, as I have said, together with the difficulty in finding an address which is suitable altogether for students. It has been a very fragmentary one, very mixed—however, I thought there were some things in it which would be suitable. There was an address I gave about a year since which I could scarcely have given you over again to-night. I am very glad, however, to have had the opportunity of giving you the address, it keeps one from getting rusty. I should like to refer to the question of certificates for "Associates not in practice." The solicitors of the Institute are still of opinion that the Council have not the power to grant certificates to "Associates not in practice," and it has been suggested that if it should be found desirable to issue certificates, a new bye-law should be passed. I trust this difficulty will be got over in the way suggested.

[Two gentlemen, who were on the platform, on being applied to by Mr. Murray, stated that at the last meeting of the Council the matter was referred to the General Purposes Committee that they might settle a form of receipt which would meet the difficulty.]

Mr. Murray, resuming, announced that this concluded the business of the meeting, unless some gentlemen wished to say something, which they would be very glad to hear.

Mr. Piggot (the Honorary Secretay) rose and said he laboured under a considerable disadvantage, coming last after the gentlemen who had so ably preceded him. He would ask, with reference to the working of the Society, that the members would not leave it all to the committee, nor the committee to any large extent to himself; and he trusted that when they had meetings fairly established they would have a good average attendance at the meetings. They had now about 100 members, and he thought they ought to have at each meeting at loast 75 on an average present. He anticipated that in another month they would have 200 members. They had sent out about 200 circulars to all the Chartered Accountants in the district.

They hoped to have a variety of lectures and papers, but, he thought, at the same time, that they should not overlook the importance of *classes*, and it would be wise if a resolution (not necessarily to be made by this meeting) was forwarded to the President of the Victoria University asking him to form classes, not for general knowledge, but for those special subjects which would be useful to the profession in particular. His idea would be to make them classes under the auspices of this Society, not open to all comers, but formed for and used by the members of this Society; and, if honorary members would interlude these classes with *their* addresses, he thought they would go on in a fair way to success.

The proceedings terminated about eight o'clock, after which numerous members were enrolled.

CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

The Inaugural Meeting of the above Society was held on Tuesday evening, the 24th of April, at St. Michael's Hall, George Yard, Lombard Street, E.C. The chair was taken by the President, Frederick Whinney, Esq., F.C.A., supported by Thomas A. Welton, Esq., F.C.A., Vice-President. At the request of the chairman, the secretary read the circular convening the meeting, and the report of the committee.

The secretary also read letters of apology for, and regret at not being able to attend the meeting, from the following gentlemen:—Mr. R. Palmer Harding, President of the Institute, Mr. William Turquand, Mr. J. Young, Mr. Edward Carter, President of the Birmingham Accountants' Society, and Mr. S. L. Price.

The President, on rising to deliver his opening address, was received with cheers. He said:—Gentlemen,—The first thing I have to do is to express to you my very sincere thanks for the honour you have done me in electing me your president—an honour which I assure you I very much appreciate, and can only hope that my connection with your Institute will be agreeable to all of us. In the first place, let me congratulate this society upon the very large number of members who attend here to-night, for it shows that a very considerable interest is taken in the education of young accountants; an interest which is further evinced by the large number of members who, I understand, have already joined the society—I believe about 147. Gentlemen, you have now enrolled yourselves as members of this society, and thus given evidence that you mean to follow the profession of accountants. I therefore propose to say a few words to you upon a question which is not at present thoroughly understood, viz. "What is an accountant?" Until within a comparatively recent period, that is until about 1790, an accountant was simply a man who was an expert at figures, a man who was known to the French as an *expert comptable*, but during the last few years, commencing from 1790, the business of the accountant has very widely spread, and at the present moment the administration of assets makes up a very large part of an accountant's duty. I recollect some years ago the late Mr. John Ball, a man who was esteemed very highly, saying at a dinner of the Institute that an accountant was a man whe had to find out facts. I, however, had to address the meeting some little time after that, and I quite agreed with Mr. Ball so far as he went, but said that I thought he might have gone a little further and added, "and also to administer trusts." With reference to the investigation of facts, of course it would be useless for any accountant to commence his investigation without having learned his alphabet, which I take to be bookkeeping by double entry; and unless a man is thoroughly well skilled in that, and able certainly to keep books as well as any ordinary bookkeeper, he would fail to become a first-class accountant. Of course, you must add to that a very considerable knowledge and experience, which are not very easily acquired. The accountant has, in the first place, to rectify and make up books of accounts, and supply deficiencies in those accounts, for in many instances the books are very imperfect. Occasionally, when I was a clerk, I used to have to make up a cash book, which was very frequently no easy matter. When it was a banker's account, into which the trader paid his money by cheque, then the matter was comparatively easy; but if that were not the case, then one had to do a great deal in collecting vouchers together, sorting and numbering them, and very often it was heavy tedious work. Of course, when the cash book was not properly made up it was thoroughly impossible to prepare anything like accurate books, but when it was made up properly, we ascertained tolerably correctly what the man had been about. Under the Bankruptcy Act of 1849 every trader was compelled to file in Court a balance-sheet, showing, not only the amount of his indebtedness, but also the results of his trading; and the rule was, that he had to take his accounts back to the time when he could show he was solvent. In other words, he had to show to the Court by his balance-sheet what had been the reasons for his insolvency. The services of accountants were frequently called into requisition to make up that balance-sheet. They also had to deal with books which were generally very imperfect. Indeed, I may venture to say, and I can appeal to the experience of some of the older gentlemen here, that there was no school for accountants to be found anywhere so good as dealing with bankrupts' balance-sheets. Occasionally they

found out by instinct items that were wrong. I have gone through a book and spotted a particular item without checking it;—that required something like instinct, but that instinct came in the course of time. It is to be regretted, so far as the present school of accountants is concerned, that the old bankrupts' balance-sheet has been abolished. Now a bankrupt has to pass his examination, but that is based upon his own mere statement of affairs, which gives but a very slight indication of the cause of failure. You may gather a little of the cause from it, but very little; occasionally there is a goods account and a cash account, but there is no such thing or scarcely ever such a thing as a deficiency account, which would commence with the balance as shown upon the bankrupt's statement of affairs. Under the old style we traced the cause of that deficiency in the balance-sheet; but how they are going to get on under the present bankruptcy bill I utterly fail to see. How an official receiver is to find not only the time, but also the brains, to make an investigation of a man's books, and then say, as the result of his investigation (which can have been but of a few hours), that the man has been honest or dishonest, or that his failure has arisen from speculations; or, in other words, how he is to advise the Court as to the way in which the man should be dealt with I utterly fail to see. It strikes me that unless there is a very great alteration in the bill, unless provision is made for the appointment of proper persons as official receivers, that that part of the official receiver's duty will be utterly useless. I know the difficulty there is in finding out whether a man has been honest or dishonest. It may take you three or four weeks, if it is a heavy failure, before you will find out whether the transactions have been on the square and above-board. Only time can show how the new bankruptcy bill will work in this respect. There is another part, and an important part, of the functions of the accountant, namely, the investigation of cases of fraud. Now the different ways in which frauds may be committed are very numerous. I suppose almost everybody tries to commit a fraud in a different way, so that he may fail to be found out; and here I am sure the students will excuse me for saying that it is tolerably well-known that no system of bookkeeping will completely prevent fraud. I think I might say that I would undertake to rob anybody as a bookkeeper. But it would be a different thing if I were suspected. Now the first element you have to deal with in the investigation of frauds is that there must be a suspicion that fraud has been committed. You do not get that in an ordinary case of supervising bookkeeping, as it would be utterly impossible for accountants to carry on their business if they were to begin by suspecting every one; but suspicion once aroused there is one golden rule, and that is, never take anything for granted. If you follow that rule, and are tolerably skilful, it is almost impossible for anybody to have committed a fraud and not be found out. Of course a fraud may be so wrapped up that it may take a long while, and perhaps then not be worth while; but if the clients will pay for finding out the fraud, a first-class accountant could always spot it. Taking nothing for granted is a rule of wide extent. I daresay many of you are familiar with cases of fraud, or have heard of them. Instances have been known of false pass books having been kept by fraudulent cashiers; receipts given for stocks and shares which have been fictitiously created, notably in the case of Redpath. False bills of exchange have been manufactured, and that in cases where the slightest inspection of a co-partner would have detected them. As a matter of fact it is often the simplicity of the fraud which prevents its being found out. I knew of one case in which an old gentleman who was managing a business entered correctly in the cash book all the sums received, and then used to have a clerk in to call out to him the amounts received, in order that they might be posted to the ledger; but he never let the clerk see the cash book. Suspicion was created, and the gentleman was found out. Mistakes have been made in addition, cheques have been drawn for wages and then it has been found that the amounts did not correspond. In one case the books had been kept by double entry—I recollect it perfectly well—and the balance had been taken out for three years. The books balanced exactly, and everything looked perfectly correct; but there was some cause for suspicion. The books were accordingly checked, and then it was found that one of the co-partners had carried to his own account in the ledger credit for a sum of about £500, which he alleged had been paid into the firm, and which purported to have been posted from the cash; but when you looked in the cash book the item was not there, It turned out that he robbed his partner, who was a blind man, of about £1000. Frauds may be committed in endless different ways, while the magnitude of them is in many instances something startling. There are names which will occur to most of us who are growing grey in the service of persons who have robbed bankers and companies of sums of £300,000 or £400,000, but the largest affair I ever heard of was where a partner robbed his firm of £620,000, and that case of fraud was covered up by very numerous entries which had figured in the balance-sheet and been sent to the other partner every half-year. These fraudulent entries ranged back over fourteen years. In this case £320,000 of the bills which were supposed to be thoroughly good turned out to be all bad. If an accountant had been called in and seen those bills he would have seen at once that they were a fraud, but the co-partner never checked the securities. A considerable quantity of an accountant's work is in making up the books of trading establishments. This is work which will increase if the Bankruptcy Bill which is now going through committee contains the clause requiring all traders to make up a statement of their affairs once a year. In the Bill of 1881 the clause stood in that fashion, that is to say, the trader was bound to keep the proper books of account. It was pointed out to the President of the Board of Trade that it would be right to compel every trader, as is done in France, to make up a yearly statement, for if men did that there would be fewer failures, as many men drift into insolvency without knowing where they are going. If this amendment is carried, the services of accountants will be called into requisition to a greater extent than they have been, and it is not saying too much to state that if traders would call us in to examine their books when they are in a state of seeming prosperity they would not so frequently have to meet adversity as they now have to do. An accountant who has had experience of making up books necessarily learns a great deal of the working of various trades, and this is a point of knowledge which is not only desirable but necessary, because he cannot tell what allowance he should make for depreciation, wear and tear of machinery and plant, for stock and book debts, without it. Some trades are more perilous than others, and consequently it is desirable to make a larger reserve in some cases than others. If an accountant studies a trade, and gets a superficial knowledge of it, he may be able if the trader's trade or books are going to the bad to tell him why it is so going, to confer with him, and to inform him in what direction the expenses have increased, and, in fact, advise him in what direction to alter his system of trading. He might tell him of a similar trade where certain expenses are only so much, and so enable him to check his own. All that is very useful, and it is a kind of advice which can be tendered with very great benefit to its recipient. Frequently in making up the books of a partnership it becomes necessary to do that which partners themselves scarcely ever do, and that is, to refer to the articles of partnership, which are a dead letter to a very great extent during the lifetime of the partnership. If an accountant is making up the books of the partners, he is bound to work in accordance with the articles of co-partnership, and in order to work properly he ought to be able to read and understand them. He could frequently give an opinion upon the construction of such a deed which would be useful. He ought also to be able to ascertain the difficult points in such a deed, in which he ought to be advised by the solicitor. Very frequently the knowledge of a partnership deed by an accountant would help to avoid many disputes between partners, while the latter would also be more careful of how they did certain things. Arbitrations and references also sometimes fall to the

accountant's lot, so that in addition to the knowledge of figures it is desirable that the accountant, who is a referee, should have a little knowledge of how evidence should be given. Of course in all cases of arbitration you must be perfectly impartial and independent. The making up of executorship accounts, especially where they are badly kept, requires the assistance of an accountant. Occasionally you get very large assets. I myself had to make up some very large executorship accounts once, amounting as they did to nearly two millions of money. The various investments numbered between two and three hundred, and some of them of considerable complexity. Then there are questions of how accumulative dividends are to be divided; and many other questions which it is necessary an accountant should be able to solve or point out to the solicitor. Under the present bankruptcy bill there is a provision by which the assets of a man who died insolvent may be wound-up in the Court of Bankruptcy; and it is possible that accountants may find work here as trustees of the estate. Looking at the clause in the bill, it seems to me that they propose to make the winding-up of an estate analogous to bankruptcy. Then, again, the auditing of accounts is a very important item in accountants' work. The auditing of accounts is rather a serious matter, as not only does the declaration of a proper dividend depend upon the audit being properly performed, but the purchase of shares by intending buyers may be materially influenced by the balance-sheet issued by the company. It is impossible within the limits of this address to give you any instructions as to how you are to perform an audit, except of the most meagre kind, but I would suggest that you should be very careful to see that the assets are in existence, that the figures which are put down as assets represent facts, because you may very often find that figures are put down and do not represent facts at all. You may take it as an absolute rule that figures should always represent facts and not the opposite. I have known instances where people have said "such and such a figure is in the books, and therefore it must be true," whereas it is nothing of the sort. It is simply carrying out the old adage that you must not believe everything because you see it in print. Test the assets of the balance-sheet, and if you do that you will find very probably the other figures will, to a great extent, take care of themselves. It is not an uncommon thing for an accountant to have to open a set of books for a company. If the company is a large one, he has to think a great deal about the matter and to map out such books as will fit the working of the company, such as call accounts and capital accounts, all of which require a great deal of careful attention. But besides, and more than that, you should be conversant with the Companies Acts, ranging as they do from 1862 to 1880. The form of certificate given by auditors is also of considerable importance, every word of which requires to be carefully weighed. I need not tell you that auditors' certificates are sometimes very eloquent by their silence, as things which are omitted are sometimes very significant. In the Companies Act of 1879, which deals with the limited liability of banks and joint stock companies, there is a clause which enacts that every auditor's report shall state that in his opinion the balance-sheet referred to in the report is a full and fair balance-sheet, properly drawn up so as to exhibit a true and correct view of the company's affairs as shown by the books of the company. This appears to be carefully worded, but you will notice that the auditor does not give his opinion in the ordinary way, "audited and found correct," but simply gives his opinion that the balance-sheet is properly drawn up. I have known exception taken to this certificate in the case of a bank, where the objecting shareholder stated that the auditor's report might be perfectly true and yet the balance-sheet might be false, inasmuch as the report contains the words "as shown by the books of the company." This may be perfectly possible, but when you are dealing with the audit of a bank it is impossible to check the vouchers. These vouchers are almost all of them the cheques which are handed back to the customers, and are not forthcoming at the audit. But what you can do in the case of a bank is to look at the assets, and then you can test whether certain things are or are not facts. You can test whether the cash is there, whether the securities are in existence, whether the bills of exchange are in existence, and you can form an opinion as to whether these bills of exchange and the advances to customers are good or not. It is sometimes said that the auditors of a bank can know nothing at all about it. Well, they may not know very much about the solvency of the customers of the bank, although they sometimes know more about some of those customers than the bank manager, but you can take this as absolutely true, that if they had had good auditors at the City of Glasgow Bank that bank would have been compelled to close long before, and would not have been such a disastrous failure as it was. Of late years a great deal of work has been done by some accountants in investigating the accounts of firms in the process of being turned into limited companies, and investigations of this sort require great care, as very often the subscriptions for shares are influenced largely by the report of the accountants. The report should be drawn in such a manner as to afford no foundation for a charge of negligence; of course, a fraudulent report is one which I do not contemplate. Some accountants have had a great deal to do with compensation cases, railway accounts, &c. because there are people continually cropping up who fancy themselves entitled to large claims. You would fancy that every one who had any property on a proposed line of railway was, when it comes to a question of compensation, making a large fortune. But this is not always the case, and in dealing with cases of this sort you require a little special knowledge. There is a class of work which does not go to London accountants very much, but which I believe goes to the accountants in the country a good deal, and that is the accounts of corporations. We have only one corporation in London except the Board of Works, but Manchester, Birmingham, and other large cities have their corporation accounts audited.

I am not quite certain whether Mr. Welton does not occasionally take a day at Brighton to audit the accounts there. Mr. Welton:—No, no. The President:—Well, he once told me he was going there for that purpose, but he may, of course, have gone for something else.

That branch of the accountant's profession which has spread most of late years is what is in my opinion the most important one, and that is the administration of assets. Of course, you all know perfectly well that accountants are called upon to act as receivers, managers, and trustees of a debtor's estate. Well, this involves an inquiry into, and taking possession of the assets, and subsequently proceeding to realise them, and very frequently a great deal depends on the way in which the assets are dealt with. There is such a thing as a line of policy to be followed in winding-up a debtor's estate; and I am not saying too much when I tell you that very frequently, or at any rate occasionally, it makes a considerable difference in the dividend whether a man winds-up an estate in one way as distinct from another. The policy of winding-up a debtor's estate is a kind of knowledge one only gets by experience, but as you get on in life you will find there is a very great deal in the policy of winding-up an estate. It is possible to conduct an estate and let it slide into difficulties, whereby the dividends will be far less than if you grappled with the difficulties and perhaps carried a composition. You must, therefore, to some extent investigate the transactions of the debtor, and form an opinion as to whether he has acted honestly. If he has, and if he is a fairly capable man, and if the estate is such a one as to warrant it, then I think the trustee cannot do better than advise the creditors to receive a composition, for I believe that a composition is the best way to wind-up a man's estate. Take the stock-in-trade—no man can realise that so well as the debtor himself. Take the book debts—I am sorry to say that when you try to collect these you will find all sorts of excuses made by those who owe them. They know perfectly well they cannot get any more goods from the man, because he has failed, and therefore they try to escape payment for what they have obtained from him.

(To be continued.)

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THE

Accountants' Students' Journal.

A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

VOL. I.—No. 2.] JUNE 1, 1883. [PRICE 6D.

NOTICE.

The ACCOUNTANTS' STUDENTS' JOURNAL *is published on the 1st of the month, price 6d. per copy, or 5s. per annum in advance. All communications should be addressed to Gee & Co., St. Stephen's Chambers, Telegraph Street, London, E.C.*

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THE

Accountants' Students' Journal.

JUNE 1, 1883.

OUR FUTURE PROSPECTS.

We are happy to say that up to the present time we have received an amount of support towards our *Students' Journal*, from Students' Societies as well as accountants all over the country, that leaves no room to doubt as to its permanent success. While thanking all our supporters individually and collectively, we particularly wish to mention the fact that the Liverpool Chartered Accountants' Students' Association have passed a resolution according us its support, as also have the Birmingham Accountants' Students' Society, the following paragraph having appeared in the report of the Committee of the latter Society, which report we shall take an early opportunity of giving in full:—"Two Students' Journals have simultaneously been established—one by Messrs. Gee & Co., the publishers of *The Accountant*, the other by the Secretary of the London Students' Society. After considerable discussion and correspondence, and a comparison of the first numbers issued, the Committee have arrived at the conclusion that the publication of Messrs. Gee & Co. would, in all probability, be more impartial, and better represent the interests of the provincial societies; for these reasons, and in remembrance of the courtesy and kindness with which Messrs. Gee & Co. have always treated our Society, the Committee have resolved to support them in their venture, and hope this decision will be endorsed by other provincial societies."

We are sure our readers will excuse us for stating that as a matter of fact this Journal and its objects having been for some time discussed, appeared, not simultaneously with, but some time prior to the other Journal referred to. It will be our constant endeavour to justify the very kind support we have received.

TO OUR SUBSCRIBERS.

We are enabled through the kindness of the author to offer copies of the work, "Auditors, their Duties and Responsibilities," by F. W. Pixley, Esq., F.C.A., to students at the reduced price of 6s. net. Applications should be filled up on the form enclosed with this number, and forward with remittance to Gee & Co., St. Stephen's Chambers, Telegraph Street, E.C.

NOTES AND QUERIES.

As there may be in the experience of accountants' students, queries cropping up, from time to time, which, owing to the particular branch of accountancy they are engaged in, they may be unable satisfactorily to solve, we purpose starting a column with the object of placing students in communication with the whole of our subscribers, and we trust, in case we are not able to dispose of any queries editorially, that, as the answers will be of mutual benefit to the whole of the students, our subscribers will lend their aid towards so desirable a project.

PRIZES FOR WINE MERCHANTS' BOOKS.

Prizes to the value of seven guineas will be given for the best set of books for wine merchants, accompanied, of course, with instructions as to the working of them. Competitors must send in their sheets, which will be the copyright of the proprietors of this Journal, not later than the 30th inst. The set of books belonging to the successful competitors, and indeed any others which have special merit in them, will be given in the pages of this Journal. The prizes will be as follows:—1st prize, four guineas; 2nd prize, two guineas; 3rd prize, one guinea. Joseph J. Saffery, Esq., F. C. A., Honorary Examiner in Bookkeeping for the Iustititute of Chartered Accountants in England and Wales, has kindly consented to be the judge. In order that there shall not be the slightest bias towards any particular competitor, the following plan had better be adopted, viz. that the competitors shall enclose their sheets with a letter to Messrs. Gee & Co., St. Stephen's Chambers, Telegraph Street, Moorgate Street, London, E.C., in their own handwriting, but signed by a *nom de plume*, and the *noms de plume* of winners will be given in our issue of August, upon which the successful competitors can communicate with us in their own handwriting and *nom de plume*, together with their real name and address and the firm by whom they are at present engaged. The competition is strictly limited to accountants' clerks who are subscribers to this Journal.

LECTURES TO STUDENTS.

The Bankruptcy Act of 1869, while it enlarged our sphere of usefulness, brought with it an evil which for a while threatened seriously to affect us as a body.

"Persons calling themselves accountants," but neither by education, training, nor experience, qualified to act in such capacity, started on all sides in the hope (more or less realised) of obtaining the manipulation of insolvent estates to their own particular advantage, and the disadvantage of every body else, including those who had the misfortune of being unable to refuse to recognise them as colleagues.

This misfortune, however, brought about its own eventual remedy. Those who had established a good reputation found it imperative, as much for their own protection as for that of the public, to create some distinction whereby they might know themselves and be known to others as protesting against daily association with persons of whom they could not on principle approve. The course adopted was to form various Societies of Accountants, which jointly, after much trouble and expense, succeeded in procuring a Charter under the title of the Institute of Chartered Accountants in England and Wales.

From the creation of the Institute under its Charter dates the great impetus given to our profession. One effect of this impetus is seen in the formation and rapid growth of Societies for Students. These societies could not have made such speedy progress but for the great interest taken therein by the various leaders of the profession. Although the oldest of these societies is not yet more than seven months old, many interesting and instructive lectures have already been given. Of themselves, lectures will not suffice either to prepare a student for his examinations, or to qualify him for subsequent practice, but they are of indisputable value in directing the course of his studies; besides which, much of the experience related is such as can hardly be derived from books alone.

The able inaugural addresses given by Mr. Edward Carter, at Birmingham; Mr. Adam Murray, at Manchester; Mr. A. W. Chalmers, at Liverpool; and Mr. Frederick Whinney, at London, aroused an interest extending far beyond the areas to which they were respectively addressed. The interest so awakened has been kept alive by lectures on special topics, such as Joint Stock Companies (Mr. Gibson, Birmingham, and Mr. Carse, Liverpool); Arbitration and Balance-sheets (Mr. Astrup Cariss, Liverpool); Bookkeeping and Auditing (Mr. R. L. Impey, Birmingham, and Mr. Trevor, Manchester); Auditing (Mr. Joseph Slocombe, Birmingham, and Mr. Pixley, London); Bankruptcy (Mr. Chas. A. Harrison, Birmingham, and Mr. Sheen, Liverpool); Executors' and Trustees' Accounts (Mr. Caldecott, Birmingham); Interest (Mr. H. S. Smith, Birmingham), Liquidation of Estates otherwise than in Bankruptcy (Mr. Welton, London); Trustees and Liquidators (Mr. W. N. Fisher, Birmingham); Depreciation and Sinking Funds (Mr. E. Guthrie, Manchester), &c. Some of these lectures have already been reproduced, and the remainder will follow in our columns; and it is to us a matter of regret that the limits of an article do not permit of a critical examination of their respective contents. Mr. Whinney, in his opening address to the London Students' Society, advised that accountants should take nothing for granted. That advice it behoves students to act upon. If the lectures are to be instructive they must be *studied* and *criticised*, and not simply read and put on one side. The lecture given by Mr. Slocombe on Auditing was especially instructive in relation to that particular branch of practice, but as he himself stated, the limit of time to which he was necessarily restricted compelled him to pass lightly over some important topics and leave others untouched. Accountants, like doctors, differ. One adopts one form of cash book; another has a system of his own. One denies that under double entry a ledger is a book of account; another asserts that it is of all others *the* book of account. One makes the *Journal* the "centre of his system," while another denies its utility. Students have now opportunities which never existed before. It is for them to examine and test the various methods advocated, and to adopt the best, or rather those best suited to requirement of each particular case. It will be their own fault if they do not take full advantage of the opportunities now afforded to them, and by their subsequent conduct prove their appreciation of the efforts being made on their behalf by those whose valuable time is being devoted to their benefit.

BOOKKEEPING.

One of the principal objects of this Journal being to assist our readers in preparing for the examinations they will in course of time be required to pass, we purpose giving a series of articles on the principles and practice of Bookkeeping.

During the last century various previously unknown callings have become distinct professions. As an instance, we cite "civil engineering," which is the outgrowth of our original "contractors." Men, often of meagre education, but possessed of intelligence and energy above their fellows, first conceived the idea of contracting to perform particular works on certain specified terms. They had no basis beyond their own observation and experience on which to work; nevertheless, they had the courage and enterprise which enabled them to undertake important works in which intricate questions of finance were important elements, and to bring such undertakings to successful and profitable issue. Large fortunes rewarded their enterprise, and thus encouraged others to adopt a similar career. Students came to them as articled pupils or apprentices, and when "out of their time," without examination, started on their own account with more or less success. At the present day that which was the result of practice and experience has been reduced to principle, until we find schools of engineering and works appropriate thereto in every important centre. But as there are now so many more to get a living out of engineering, although some few may still make fortunes, the competition is so keen and prices so

easily ascertainable, that those who have not exceptional aptitude and perseverance must be content if they so far succeed as to get a decent living out of it, and do not find their efforts culminate in a "smash."

The infancy through which civil engineering has passed is the one through which accountancy is now passing. Our history resembles theirs. The necessity arose for men skilled in accounts. The demand originated the supply: a few far-seeing men saw and embraced the opportunity. Theories they had none, unless we accept as theories such as "every credit must have its debit," and that "the books required are cash-book, journal, and ledger." In lieu of theories they had practical experience of the mode of keeping and treating accounts, and on that experience they relied.

It may safely be asserted that even at the present day many practical and successful accountants would, if pressed for the reason for doing a particular thing, fail to give a lucid explanation on the subject, notwithstanding the fact that their work was well and properly performed. This may have been all very well in the past before we had a Charter, and examinations became a necessity to procure admission to its privileges, but now the examinations have become facts the theory can no longer be ignored.

"Bookkeeping" may with safety be said to have had its origin in the primitive form, still found in some parts (such as among bakers in some French towns), of keeping a stick for each customer and cutting a notch for each delivery. Later on it reached the dignity of single entry, which doubtless was at the time looked upon as something very like perfection, until some gifted being—generally believed to be a Genoese—invented double entry.

SINGLE ENTRY.

This system, more or less primitive or "improved," is still in general use in some trades, and still more commonly among shopkeepers, the usual impression among the uninitiated being that it is so *simple* compared with the complexity and enormous additional labour of double entry.

Simple it undoubtedly is, but in the old-fashioned sense of the word and not in the sense which implies an approximation to perfection. True single entry is in fact "eminently unsatisfactory," for by it a trader cannot properly test the correctness of his accounts, nor ascertain with any reliability in what way he arrived at his profit or his loss.

As we are, however, so frequently required to examine single entry books to make out "balance-sheets" thereupon, and perhaps to furnish reports thereon, it is necessary to understand the principle (or perhaps we should better say want of principle) which governs this so-called system.

In *true* single entry no "nominal," or as some say "impersonal" accounts are kept, such nominal accounts being in fact the subdivisions of the trader's own account.

Under the strict application of this system three principal books of account only are required, namely, cash-book, day-book, and ledger; but without any deviation from its principles, each of these books may be subdivided in accordance with the requirements of the particular business. For instance, the "house cash," that is, the account of all receipts and payments without the intervention of a bank, may be kept in one book, and all moneys paid into or out of bank may be kept in another book; the day-book may be divided into "goods received book" and "goods sold book," and either of them be again subdivided into departments, while the ledger may be divided into "debtors' ledger" and "creditors' ledger," and they be subdivided in their turn. It should be noted that inasmuch as nominal accounts are not kept, although "day-book" is a correct term, "goods bought" and "goods sold" are misnomers, and such books should in strictness be called "creditors' book" and debtors' (or customers) books.

JOINT STOCK COMPANIES.

There is no necessity for compulsory registration of a company, unless the number of persons composing it is more than twenty, and the object of their association is the acquisition of gain; but any seven or more persons may combine for any *lawful* purpose, such as the promotion of art, or religion, or charity, and be registered as a company, with limited liability or without, so long as acquisition of gain is not their object. All companies are formed by the signing of a memorandum of association by seven or more of the members, and such memorandum must in all cases contain the name of the proposed company, the part of the United Kingdom, whether England, Scotland, or Ireland, in which it is proposed to have the registered office of the company; and also the objects that the proposed company have in view. If the company is one limited by shares or by guarantee, it must add the word limited after the name of the company; companies limited by shares must also insert in the memorandum of association a clause declaring that the liability of the shareholders is limited, and the amount of capital with which the company intend to commence operations; the amount of capital must be registered and divided into a certain number of shares of a fixed amount; for example, the capital of the company is £10,000 in 1000 shares of £10 each. No subscriber to the objects of the company is to take less than one share, and each subscriber is to write opposite his name the number of shares he takes. We have said that the memorandum must also contain a clause declaring that the liability of the members is limited. This is a wise provision, as the mischief that limited companies have done, even with that clause, is sufficiently apparent; and if it had not been made a requirement that such clause should be inserted, the evil would have been considerably augmented, as there would have been no check to prevent any company from appearing as a company unlimited as to the liability of

the shareholders, aud thus able to obtain an amount of credit that is now impossible. The insertion of a clause of that character is therefore calculated to check rash speculation on the one hand, and unlimited confidence on the other. If the company is one limited by guarantee, it must insert a clause declaring that each member (in the event of the company being wound-up during his membership, or within twelve months after it has expired) undertakes to contribute to the assets of the company towards the payment of the debts and liabilities incurred, and the expenses of winding-up; also for the adjustment of the various rights of the other guarantors among themselves, and to contribute whatever amount may be required not exceeding the amount of their guarantee. The memorandum of association containing the above provisoes requires to be stamped with a deed stamp, and has the same binding effect as a deed upon the heirs, executors, and administrators of the deceased shareholder who has executed it. Each signature is to be attested by one witness, and such attestation is valid throughout the United Kingdom. When the memorandum is duly executed, the company can make no alteration in its provisions, except that it it may by special resolution, and with the consent of the Board of Trade, change its name, and also can, if so empowered by its original resolution, or if not then as empowered by a special resolution, increase its capital by the issue of new shares, or divide them into shares of larger amount. "The memorandum of association *may*, in case of a company limited by shares, and *shall*, in the case of a company limited by guarantee or unlimited, be accompanied when registered by articles of association signed by the subscribers to the memorandum of association, and prescribing such regulations for the company as the subscribers to the memorandum of association may deem expedient." So says section 14 of the Act of 1862, and then proceeds, "The articles shall be expressed in separate paragraphs, and shall be numbered arithmetically;" and then gives direction as to the amount of capital and other particulars, which we have enumerated above. The articles of association have to be printed, and are to be stamped as if they were a deed and signed by each subscriber, and the signature of such subscriber is to be witnessed in the same manner as we have shown to be necessary for a memorandum of association. Both the memorandum of association and the articles are to be given to and retained by the registrar of joint stock companies, who will register them, after which he grants his certificate of incorporation; and if the company is limited, he is to state that fact in his certificate. The subscribers then become a body corporate, having the name mentioned in the memorandum, and have thenceforth power, so long as the company is in existence, to exercise all the powers and advantages of a corporation with a common seal and a perpetual existence and succession. We say perpetual existence advisedly, for a corporation never dies. Although the various members who originally called it into existence may have passed away, and their places been filled by new men, still the body corporate survives and goes on from year to year, and is not affected by the "manifold changes of this mortal life." As an example of what is meant by this term, take the case of the New River Company. Where are the original subscribers to that great undertaking? How many times have the shareholders been changed, and their places filled by others, since its formation? These are questions difficult to answer; yet the New River Company exists, and at present seems likely to emulate the Wandering Jew in vitality, and to answer to the description of the Poet Laureate in his poem of "The Brook"—"Men may come and men may go; but I go on for ever." This, then, is what is meant by a perpetual existence, viz. a capacity under favourable circumstances of living for ever; and this a company has after its incorporation.

Letters to the Editor.

The Accountants' Students' Journal.
To the Editor of The Accountants' Students' Journal.

Sir,—I have perused the specimen copy of the *Students' Journal* sent me last Saturday, and think it will be of great use to those for whom it is intended. May I suggest that its utility would be greatly increased if model answers to the questions set at the past and future examinations were published in your columns; and if such answers were approved by the examining committee of the Council, it would be an additional advantage. Students would then be enabled to know how much was expected of them, and how far it is necessary to go into legal details in preparing for the examinations. At present we are quite in the dark, as some of the legal questions already submitted would require pages to answer thoroughly. If you think my suggestion worthy of consideration, it would be well if you would invite other students to express their views upon it through your *Journal*.

Yours, &c.
Albert E. Gibson.

Birmingham, May 15, 1883.

[We have made arrangements to give model answers to the questions set in the Intermediate and Final Examinations of the Institute, and judging from the support, official and otherwise, that we have been promised, we do not doubt of the success of the scheme.—Ed. *Accountants' Students' Journal.*]

CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

INAUGURAL MEETING.

(*Continued from No.* 1, *p.* 19.)

A composition also fixes the amount the creditors can expect to receive, and affords them a reasonable hope of some sort of payment. It is natural for a creditor to say, "So-and-so has failed, and he offers me 10s. in the pound; I had better take it and make an end of the matter." Occasionally the bugbear of bankruptcy is held out to creditors, and occasionally a man falls into the trap and takes a smaller composition than necessary; but, notwithstanding all the outcry which has occurred in connection with the bankruptcy bill, and which has led to the present bill, compositions are a favourite method of winding-up an

estate. Of course, I do not mean simply a whitewashing composition, because the Court has set its face against all compositions which are for the benefit of the debtor only. How the official receivers under the bankruptcy bill are going to report as to the advisability of sanctioning a composition when a proper statement has not been made out I know not. Most of you know that a statement of affairs is a very important document, and a document which debtors, many of them, cannot possibly prepare, and yet there is no provision made for its preparation by an accountant; however, it is an evil which will work its own remedy one day, and there we must for the present leave it. The duties of a trustee are so multifarious that I have no doubt you will have papers read to you on the subject. I can only indicate very briefly the functions you will be called upon to perform. It is absolutely necessary that a trustee should have some knowledge of bankruptcy law and practice, so as to render it unnecessary for him to run to his solicitor the moment every small question arises. I do not for a single moment wish it to be understood that a trustee should rely upon his own knowledge of the law in winding-up a debtor's estate. It would be trenching upon the province of another profession if he were to do so, and he would invariably find out that a little knowledge is a very dangerous thing. All that I contend for is, that he should learn sufficient law to become an educated and intelligent client. Winding-up joint stock companies is a subject which calls for a large share of the attention of accountants. This business runs back to the year 1848, when official managers first came into existence. The estate was then vested in the official manager, who became thereby a trustee; and this was the first instance, so far as I know, of the violation of the legal axiom that a trustee must not make a profit. A large business was done by accountants in the year 1848 in the winding-up of joint stock companies; and in 1849, 1850, and 1851 there was a large business in winding-up abortive railway companies, until somebody found out that they were not companies at all, and then that branch of business ceased. The duties performed by an official liquidator are of a most onerous character. He has not only to realise the assets and collect the debts due to the company, but he has to make out a list of contributories, that is, to ascertain those shareholders who are liable for debts; and this is most frequently, as I know from experience, a troublesome and difficult matter. Of course you have to deal with cases of very great hardship, of ladies and clergymen who have put their all into companies—a very wrong thing of them to do, no doubt, but still they have done it—and occasionally one has very distressing scenes in connection with them. The liquidator has to give his solicitor instructions to carry on possibly a vast amount of litigation connected with the company, but before he can do so he must investigate the company's books, and nothing calls for more judgment and discretion than an investigation of those accounts. If a liquidator starts a litigation, and without succeeding, it is all money thrown away. He must therefore know where to look for the salient points, so as to prevent estates being wasted. Part of the liquidator's duties too are to advise the judge upon the acceptance of compromises offered by contributors who are unable to pay the calls in full. This is very often a distressing part of one's duty, as one would like to let some people off altogether, but it is impossible. He has to advise the Court as to the time and amount at which calls should be made, and to investigate the claims made against the estate. I never wound-up a company where there was not a claim put forward which we had to put right or resist. Occasionally you may have very large claims of this kind. In one case I had claims put forward for £250,000 against a company, and I got rid of them all without paying a single farthing. If you have not the knowledge necessary for dealing with such questions, the claims get proved—for if you cannot find out an answer to them nobody else does—and the shareholders have to pay them. Therefore the possession of something like a knowledge of the law of contract becomes rather important for an official liquidator. It is only necessary to state that unless a liquidator starts questions, the result of his investigations, those questions are very seldom started at all. Sometimes questions are started which are no good to anybody, and it is a proper question for the liquidator to put to himself, "If I start this question, what good will it do to anybody?" And if he thinks it will do no good to anybody, it is his duty not to start it. Of course there is a very great deal left to the discretion of the official liquidator, and a great deal of confidence is placed in him. Occasionally the judge will ask his opinion on a matter of business, and it will generally be taken; besides which there is one other thing which shows the confidence which is reposed in liquidators. In very large affairs it is utterly impossible to get security, for the amounts passing through the hands of liquidators are so great that no man could find security for them. Just imagine finding security for millions: it cannot be done. There are other functions to be fulfilled by an accountant, which I must dismiss in a very few words. The Courts have power to employ him as an expert, but they do not do it very often. They can appoint him a special referee; and generally speaking when he makes his report it is received with a great deal of respect. I have thus given a brief and imperfect *resumé* of the duties which devolve upon an accountant. You will see that they are of considerable importance, and require considerable skill and knowledge—such as can only be obtained through hard work or study. And here let me say a word to my younger friends: I believe in the magic of hard work. You see a great many young men who crowd into professions or trades who do not do their work in a thorough manner. They come a little late in the morning, they lounge through their work, and they finally make up for coming late by going away a little earlier. Now those who want to succeed will never do it in that fashion. If you want to succeed, you must have an interest in your work; you must work at it, not in every case pausing to think whether it is work which will "pay" or not. You must do your work well for the work's sake. It was written a great many years ago, and it is no less the truth now; "Whatsoever thy hand findeth to do, do it with thy might;" and there is no reason why that should not apply to persons of the present day.

In my belief, there is for people of ability as good an opening in England as ever, and I think you will agree with me that to perform the functions properly which I have briefly indicated to you, there is quite sufficient to call into existence all the talents a man can possess. To be successful he ought to be accurate, careful, patient, accustomed to long investigations; and as he is frequently called upon to fill positions of high trust, he should be thoroughly discreet, honest, and truthful. In the course of his work, the accountant will find it of great advantage to himself to be able to address a meeting in a clear and business-like way, to be able to set forth figures intelligibly, and when under examination as a skilled witness, although he may have to think in technical language, to be able to express his meaning in terms ordinarily used. Of course, in addressing a meeting of creditors eloquence would be entirely out of place, for what you want is a clear and business-like speech. A knowledge of foreign languages is very useful, especially as English companies are now formed to carry on operations in nearly all parts of the world. Occasionally these companies have to undergo the common fate and wind-up, and then the official liquidator has to go abroad. If so, he will find immense assistance in being able to speak French and German well. He will also find it a still greater help to him if he has a slight knowledge of the laws of those countries, of the legal terms employed, and of the meaning of those terms. Now I come to our Institute. It had been a grievance with respectable accountants that they had to suffer for complaints made against persons calling themselves accountants, although those persons might not know one side of a ledger from the other. Of course, I do not mean the heads of government departments, railways, &c., but persons of very little ability and no character who hold themselves out as accountants. We sometimes see that Mr. So and So was charged with being drunk, or picking pockets, &c., and describing himself as an accountant,

Unfortunately, any one can call himself an accountant, and the nuisance of this became so great, that many of the principal accountants formed themselves into Institutes, and after they had been in existence for a few years the various Institutes combined in applying for and obtaining a Charter, incorporating the Institute of Chartered Accountants of London. The petition for the Charter stated, amongst other things, "That the profession of Public Accountants in England and Wales is a numerous one, and their functions are of great and increasing importance in respect of their employment in the capacities of liquidators acting in the winding-up of companies, and of receivers under decrees, and of trustees in bankruptcies, or arrangements with creditors, and in various positions of trust under Courts of Justice, as also in the auditing of the accounts of public companies, and of partnerships and otherwise. That the aggregate number of members of the said societies exceed 500, and in that number are comprised nearly all the leading Public Accountants of England and Wales. That in the judgment of the petitioners it would greatly promote the objects for which the said societies have been instituted, and would also be for the public benefit, if the members thereof were incorporated as one body, as besides other advantages such incorporation would be a public recognition of the importance of the profession, and would tend to gradually raise its character, and thus to secure to the community the existence of a class of persons well qualified to be employed in the responsible and difficult duties often devolving on Public Accountants." I don't think you could put a case for ourselves in better language than that, for you must bear in mind that we exist for the public benefit as well as our own. The Charter then proceeds to state that being satisfied that the intentions of the petitioners are laudable and deserving of encouragement, we (Her Most Gracious Majesty) by our perrogative royal, &c. do constitute and incorporate into one body politic and corporate by the name of the Institute of Chartered Accountants of England and Wales. Under the provisions it was necessary at the outset to admit accountants of a certain standing, but the ultimate object of the Charter was that those who signify their intention of becoming Chartered Accountants should serve under articles, and pass an examination as a guarantee to the public. It is thought that by these means the status would be elevated, and the professional knowledge of its members increased. The number of members on the 31st December, 1882, was 1,236. The Chartered Institute is making its way in public estimation, as is evidenced by the fact that notice of an amendment has been given with reference to the present Bankruptcy Bill that no public accountant should be appointed to fill the office of trustee, official receiver, or manager in bankruptcy, unless he is a member of the Institute of Chartered Accountants. I may say that the Institute rather suggested that should be done; but it is done as well for the benefit of the public. Another notice of amendment has been given, which if carried would limit the number of official receivers, to either members of the United Law Society, members of the Institute of Chartered Accountants, or of the Society of Actuaries, unless the Board of Trade see good reason to the contrary. We therefore hope that the Institute will by these means be recognised as filling a public want. It is hoped that in course of time the public will come to appreciate the advantage of having to deal with Chartered Accountants. I have endeavoured thus briefly to give you a *resumé* of the duties of an accountant, and in so doing, I have sought rather to give you material for thought than to inculcate any teaching. That will be more satisfactorily done by the reading of papers upon various subjects: and notice of these has I see already been given. I have spoken to you of the reason why the Institute of Chartered Accountants has been called into existence, and I hope some day to be able to congratulate you all upon becoming members of that Institute, and I trust that you and your fellow students who are scattered all over the country, and who are the future accountants of England, may, by your honour and trust with which you carry out your duties, secure and enhance the future reputation of the Institute. Your presence here to-night shows your desire to have yourselves educated so as to become members of what I may fairly call a very useful and honourable profession, and I can only say that I wish you every success in your endeavours. [Loud cheers, amid which the President resumed his seat.]

Mr. T. A. Welton.—Mr. President and Gentlemen,—I wish in the first place to offer you my acknowledgments for the position in which you have placed me. I presume you have appointed me your first vice-president in recognition of the interest I have always felt in the welfare of the younger members of the profession. I hope you will always adopt the wholesome rule of admitting as many of the senior members of the profession as possible successively to that position, so that they may give you the benefits of their experience. As to the allusion made to me by your president respecting the borough of Brighton, I should like to explain. (Hear.) Some few years ago the corporation of Brighton thought it would be well for Hove to be embodied with them. Hove did not share their sentiments, and I was called in to find out the state of affairs in both places with a view to prove the case of Brighton. I am happy to say that the professional man employed by the Hove commissioners arrived at conclusions so similar to those I had reached that they did not call him, but took my evidence as being conclusive. I believe one of the characteristics of accountants is that they are more impartial than the members of the legal profession, and that is because it is not part of their duty to be partisans. Consequently, that is a distinction which it is just as well to bear in mind when we are engaged in litigations. I would utter one word which your president has, I think, omitted in relation to the duties you have to perform, and that is *compromise*. It will sometimes happen in cases of enormous importance that a part is preferable to the whole, and that by arranging between the contending parties a better state of things can be secured for them all—much better than if they chose to fight out their extreme rights. I know one striking instance where two (new and old) bodies of shareholders in a large bank were both more or less liable to certain creditors, and which would have led to a most extensive enquiry had it not occurred to my partner, Mr. Quilter, that the matter could be arranged by the creditors taking a diminished sum from the shareholders of the new bank. The fact is that a little amicable arrangement will very often terminate the most destructive litigation. As to essays, I was anxious to establish some system when I was an official of the old Institute, by which prizes would be offered for such productions, but I found there were difficulties in the way. I hope the junior members of the profession, now this Society is formed, will overcome those difficulties. I do not believe in long and important essays being called for. I would rather suggest that every member of this Society should be invited as occasion serves to send in memoranda upon points of interest to the Council, that they should be printed, and that at proper intervals of time the work thus sent in should be reviewed and some prizes awarded to those who had done the best. I have nothing further to add to what the president has said. (Cheers.)

Mr. G. Sneath.—Mr. President and Gentlemen,—Our worthy president has touched upon nearly all the topics of interest to the profession of an accountant, and in all the points he has brought forward he has shown you that the profession is a most honourable one, and one that requires a great deal of skill and attention. For that reason I think that the formation of the present Society is one which will conduce considerably to the elevation of the status of professional accountants in the future. It will tend to make the members of the profession thoroughly competent, able, and independent, and so to command the esteem of the commercial world in general. If that be the aim of the members of this Society, I am sure we shall all have done well in starting such an institution as this. I don't propose to detain you long, but should wish to say a few words, and especially upon the question of classes. I attach great importance to the formation of classes in this

institution. The subjects at present laid down by the Council for examination open up a very wide field, and will, if properly carried out, make the gentlemen admitted as accountants prove that they have well studied both commercial and business matters, the law in its elementary stages, and general literature, and that they are thoroughly qualified to carry out any of the duties imposed upon them by the public. I quite agree with the worthy president that one of the subjects, and that a very important subject, for study is that of foreign languages, French and German, for choice. I speak from experience, for my firm have had many foreign matters of business, and in consequence of my ignorance of the German language I have had to forego the pleasure of several trips to Germany; and, to confirm the worthy president's remark of the extended duties of an accountant, I may add that I have had business which has taken me to America: but there a knowledge of foreign languages was not necessary. Then there is the question of hard work. I do agree with the president that students will never make good accountants unless they take an interest in the work they have to perform, and stick to it and thoroughly carry it out. Do your work thoroughly and earnestly, no matter how long it may take you. There are many points on which one might dwell, but I will not detain you longer. I have great pleasure in moving a vote of thanks to our worthy vice-president (Mr. Welton) for his address. (Cheers.)

Mr. Van de Linde.—I have very much pleasure in seconding the vote. We have in Mr. Welton a very able gentleman, whose heart is with us, and who is on the Council of the Institute as well as on the Council of the Statistical Society, and therefore we may look forward with great interest to all the papers which Mr. Welton may from time to time favour us with, as well as to the hints that he will give us. Therefore I beg to second the vote of thanks to Mr. Welton, our worthy vice-president.

The President then put the vote of thanks to Mr. Welton to the meeting, and it was carried unanimously.

Mr. Griffiths.—You have heard the address of our worthy president with deep interest. In selecting him as their president the students of this Society have done themselves great honour, and have chosen a gentleman who will perform his duties with perfect satisfaction to them all. I am sure the *resumé* he gave us of the duties and responsibilities of accountants was really almost alarming, there were so many branches of the profession he touched upon, and it would really seem that it required a great deal of courage to follow the profession. We are indebted to the president very much for attending here to-night, for he has actually risen from a bed of sickness to do us good. (Cheers.) It is like an accountant of position to do such a thing, and I can only hope that his exertions may do him no harm, and that we may next see him in his general good health. The Society that you have now formed, gentlemen, although in its infancy, has apparently attained a very large growth, and it is much to be hoped that it may continue to do so, and that you may all continue to take the same interest in it as you show to-night. I will conclude by proposing a vote of thanks to your president. (Cheers.)

Mr. F. W. Pixley.—I am sure when I sit down from seconding it you will give this motion of a vote of thanks to your president a very enthusiastic reception. His explanation of the duties of accountants has been most interesting, and you will all look forward to the time when you will be able to take part in them. I shall be very brief on this occasion, as I shall have the honour of addressing you on the special duties which fall to the lot of accountants, and therefore I will simply ask you to join me in the vote of thanks which Mr. Griffiths has proposed. (Loud cheers.)

The motion was put to the meeting by Mr. Welton, and carried by acclamation.

The President.—I am very much obliged to you for your vote of thanks. I only wish I could have given more time to the *resumé* I had prepared, and of which to-night I have used only about a quarter. Anything I can do to forward the interests of the students I shall always be very glad indeed to do. But there is one thing you ought not to forget to do, and it is this, You owe your meeting here to-night to the committee and the secretary, and I shall therefore move that which I am sure you will all agree to—that the hearty thanks of this meeting are due to the committee and secretary for their valuable services.

The vote was at once carried.

The Hon. Secretary (Mr. Walter Piggott).—Mr. President and Gentlemen,—I am called upon to return thanks for your vote on behalf of myself and the committee. The proceeding is not on the agenda, and therefore I am not prepared for it. I shall, therefore, simply return thanks, and say it will give me very great pleasure to forward the interests of this Society in any way I can. (Loud cheers.)

The meeting then separated.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY.

"AUDITING."

The fourth ordinary meeting of this Society was held on the 28th ultimo, when Mr. Joseph Slocombe delivered a lecture on "Auditing." The chair was taken by the Vice-President, Mr. Chas. A. Harrison, and 83 honorary and ordinary members were present. The lecturer said:—

Our business this evening is to consider two questions. First, what is an auditor? and second, what are his duties? The first question is easily answered, the reply to the second can be extended to almost indefinite length. It will be more especially my task this evening, as far as I am able to do so, and as far as the limits of your patience with me will permit, to give an outline of what the duties of an auditor include.

First, then, what is an auditor? The Encyclopædias to which I have referred for a brief authoritative definition of the terms, do not give a very complete exposition of its meaning, *e.g.*, they do not seem to take any notice of Public Accountants as auditors, although one would expect some such reference in modern works. Perhaps I have not searched far enough, but I found in one old Encylopædia a short definition which will probably serve our purpose, as it is a fairly good answer to the inquiry.

> "To audit is to hear whatever may be said on the subject
> "in hand, with a view of passing a judgment; generally
> "applied to the examination and passing of accounts by
> "persons denominated auditors, but who are, perhaps, in
> "these transactions more properly inspectors."

The auditors of the present day may, I think, be roughly divided into three classes:—

The non-professional,
The professional, and
The official.

I suppose that before the present century, the second class, with which we are more directly interested, did not exist. The few audits then made which were not official, were generally performed by gentlemen whose staple incomes were not, as ours are, liable to be influenced by the parsimony of ungrateful shareholders, or the cutting-down propensities of cheeseparing clients.

To begin with this first class—the non-professional auditor—their number is thinning down year by year, and some of you may probably live to see the day when the amateur auditor will be almost as extinct as the dodo. The non-professional auditor is generally a man of business—frequently retired—whose friends think he has an aptitude for figures and investigation. Sometimes—indeed often—the friends are right, and it has been my lot to meet with non-professional gentlemen in the capacity of auditors, whose painstaking sagacity and skill would be creditable to any trained accountant; but I could tell humorous stories of another section of this class—gentlemen whose capacity for auditing the condition of the sherry (which in their case generally accompanied the audit) was doubtless excellent, but whose ability to audit any set of accounts did not exist outside the imagination of the friends who had been instrumental in their appointment.

The experience of later years has shown that unprofessional audits are generally incomplete and frequently worthless.

Worthless in cases such as I have just referred to, and incomplete—except in small matters—because the gentlemen appointed have not either the time, the inclination, or, so to speak, the machinery for that thorough examination which we know to be essential if an audit is to be effectual and reliable.

As the main object of this lecture is to deal with the work of a professional auditor, it will perhaps be advisable for me now, in order to clear the ground, to refer at once to the third class of auditors I have mentioned—the official—and this may be done very briefly, because I believe I am right in stating that the official auditor is a gentleman with whom the professional accountant is not frequently brought into contact. The chief official auditors are those appointed by the Local Government Board and the Board of Trade—each of those for the Local Government Board having a district assigned to him, and their duties include the audit of the accounts of Local Boards of Health, Highway, and Sanitary Authorities, School Boards, &c. The official auditors are not, so far as I am aware, ever selected from the ranks of professional accountants, but are, for the most part, able men who have had some legal or official training, and are considered capable of deciding judicially upon the legality and propriety of the payments set forth in the accounts submitted to them, having regard to the acts and orders by which the several local authorities whose accounts they have to investigate are governed; and in this capacity they have (subject to appeal) the power to disallow and surcharge. As accountants, although your work will not be co-ordinate with theirs, you may sometimes have to prepare statements for the official auditors, and in that case I would recommend you to study "Lloyd Roberts' Exemplification of Local Board Accounts," published by Knight & Co., 90, Fleet Street, London.

We now come to the "pièce de résistance" of the evening—the professional auditor—the Chartered Accountant, for I hope the day is not far distant when none but Chartered Accountants will be selected for such appointments. In saying this, I am not actuated by what has been described as a spirit of narrow Trades Unionism, but by a conviction which strengthens with time of the serious, I might say solemn, responsibilities which attach to the position of an auditor, and this leads me to the conclusion, that none but those who are presumably fitted for the work should be deputed to do it. The qualifications for an auditor are manifold—he should be skilful and experienced: honest, bold and courageous, yet discreet withal; and he should possess in a large degree the quality of firmness, tempered with courtesy, forbearance and moderation. This is my humble conception of the ideal auditor—we may not all attain the ideal, but we may all at least strive to reach it.

I purpose, in proceeding now to treat of the duties of the professional auditor, to refer mainly to his duties in relation to public companies, because I think we shall find that, in doing so, we are at the same time covering, at any rate, most of the ground which we should have to travel in considering the work of an auditor to a private individual or partnership. An auditor's work in relation to the latter is generally (and sometimes too in company audits) more or less associated with the completion of the accounts and preparation of the Balance-sheet, and an auditor for a new company is also frequently consulted upon the scheme of accounts to be kept by the company, and the method of carrying it out—subjects upon which the advice of an experienced accountant is always very valuable; but it is not my intention to touch upon these questions, which come more properly under the head of Book-keeping. I shall this evening assume substantially that the accounts have been completed, and are lying before us ready for the audit.

You will have gathered from my previous remarks that I regard the position of an auditor as one of great importance and responsibility. It is his business thoroughly to investigate in principle and detail the accounts submitted for his examination, and he should therefore require, and insist on, the fullest information upon every subject to which the accounts relate Sometimes an auditor is hampered in this respect by the limited time placed at his disposal—a difficulty to be overcome, if possible, by a little management and arrangement. The Articles of Association of most Companies provide that the accounts shall be laid before the auditors so many days before the ordinary meeting of shareholders at which they are to be presented, but very frequently this period (never too long) is curtailed by the operation of another article which provides for the publication of the Directors' report and accounts 5, 7 or 10 days before the meeting. Whether the period allowed, however, be short or long, it will be found desirable to commence an examination of the details in the books before the final accounts are ready, and this can generally be arranged where the officials of the Company are desirous of co-operating with the auditor. If, however, you begin your audit before the books are fully made up, I warn you to be careful not to check off ink entries against pencil, and not to certify the Balance-sheet until the entries are all complete, the books closed, and the balances in agreement with the trial balance.

With regard to questions of principle: although the auditor of an ordinary commercial concern has not the power of disallowance and surcharge possessed by some of the official auditors, yet it is his duty to report to the shareholders upon any matter relating to the finances of the company which appears to him to demand inquiry or consideration. But great discretion should be exercised in this. It is an old proverb that "any fool can ask questions," but a wise man is frequently required to answer them, and it is easy enough to raise financial bogies, but not so easy to lay them. Moreover the auditor should be careful to what extent he offers advice in matters of administration, except on questions relating specifically to the accounts and to office arrangements. The directors and managers are answerable to the shareholders for profit and loss, and it is well that they are, for, looking at the variety of commercial enterprises with which auditors have to deal, I, for one, should in most instances shrink from the responsibility of determining whether the company's produce had or had not been manufactured and sold to the best advantage, and as to the expenditure, whether it had or had not been economical and judicious.

In considering the varieties of account which will be from time to time be submitted for our examination, I think we shall again find it convenient to adopt a system of classification. First, then, to deal with commercial accounts. They appear to me to divide themselves into six great classes:—

1. Manufacturing and Trading Companies.
2. Mining Companies.
3. Banking, Financial and Investment Companies.
4. Insurance and Guarantee Companies.
5. Gas and Water Companies.
6. Railway, Canal, Telegraph and Tramway Companies, Shipping and other Transport Companies.

The accounts, other than commercial, which we may be called upon to investigate include five classes:—

(*a*) Municipal Corporations and Local Authorities.
(*b*) Estates of deceased persons and of Trusts of various kinds.
(*c*) Hospitals, Dispensaries and Charitable Institutions generally, and Religious and Philanthropical Associations.
(*d*) Friendly and Benefit Societies.
(*e*) Clubs and other organisations for the promotion of social and intellectual intercourse or recreation.

There are many questions upon these last five classes to which I might direct your attention, but there will not be time for me to do so, and my remarks upon some of the commercial classes must necessarily be brief and incomplete.

Turning now to the Commercial Accounts, I have placed Manufacturing and Trading Companies first, because the leading principles which should govern us in the examination of these will also—subject to variations of condition and circumstance—be our guide in the other classes.

Now the chief account, as you all know, is the Balance-sheet. If every road leads to Rome, so does every account lead directly or indirectly into the Balance-sheet, and the Balance-sheet

cannot be true if the accounts which lead into it be false. The Balance-sheet when published is generally preceded by a Profit and Loss Account. There must also be a Trade or Working Account, but this in Manufacturing and Trading Companies is not generally published, lest it should afford to opponents in the same trade information upon gross profits, expenses and other details of the concern which it would be undesirable for competitors to obtain.

These accounts (Balance-sheet, Profit and Loss, and Trade) cannot be definitely compiled until the books have been fully posted for the period under examination, and a Balance Account, or, as it is more generally termed, Trial Balance, has been struck. You will have learnt in the course of your studies upon the subject of bookkeeping that when the books have been accurately kept it will be found, on taking out the whole of the debit and credit balances on their respective sides, that the total of the one agrees exactly with that of the other—hence the term Trial Balance. On the other hand it sometimes happens, may I not say it most frequently happens, that these debits and credits do not agree, because some posting has been incorrectly made, some addition wrongly cast, or some balance inaccurately extracted. Technically, of course, as auditors, it is not part of our business to right these wrongs, and a bookkeeper who takes a pride in his work will seldom place his accounts in our hands until he has traced and corrected any errors that may have crept into his books; but not unfrequently, where the auditors are professional men, the difference is left for them to trace, although it may be no part of the arrangement that they should complete and balance the books.

Let us next see what we have to do as auditors with the Trial Balance, and to what extent it is our duty to test it; and this is not only a difficult question to deal with in a lecture but it is at the same time a somewhat delicate one, because it is one upon which the practice of competent accountants is apt to vary. There are some cases wherein an audit to be efficient should comprehend an examination of every entry in the books, but there are others, more numerous, wherein the accuracy of the accounts may be verified by tests which render the checking of every posting unnecessary. Speaking generally, the Cash Book, which is in truth the root and foundation of all, should be exhaustively examined, both as to receipts and payments, and checked into the Ledgers and other books of account under review. The whole of the postings of the nominal and private Ledgers should also be checked and the nature of the entries in them scrutinised. A memorandum sheet should be made of all entries appearing to call for explanation or justification, and this sheet should be disposed of before the audit is regarded as complete. Moreover it is very desirable to keep a memorandum also of what has been done upon the audit. When this has all been accomplished the items of the trial balance should be traced, one by one, until exhausted, into the Revenue Accounts and Balance Sheet, and these latter should then be tested as to *form*, *wording* and *figures*; a subject upon which I shall have more to say presently.

Before I do so, let me now stop to say a few words upon the Cash Book. The examination of this book should be *searching* and *complete*. Every payment should be scrutinised and a satisfactory voucher required for every item, except small amounts of Petty Cash for which nothing in the shape of a receipt can be obtained. The vouchers should be arranged by the company's bookkeeper in chronological order, or so kept in a Guard Book, and it is convenient to have them numbered to correspond with serial numbers against the payments in the Cash Book. When passed by the auditor they should be initialed or stamped by him, or by his assistant, and the vouched entries in the Cash Book duly ticked—a list of missing vouchers being made, and the missing documents obtained before the accounts are certified, unless the accuracy of the unvouched payments can be tested in some other way. Of course, the additions must all be checked and the balance compared with the trial balance. The Receipt or Dr. side of the Cash Book is not so easily verified as the Cr. side (relating to payments), because whilst you can make the cashier give you proof for all his payments, you can never be quite certain that he has not received something with which, either wilfully or unintentionally, he has omitted to charge himself. In order to provide as far as possible against this difficulty a practice has grown up of late years—indeed in large concerns (and in well-managed concerns of all sizes) it has become general—not, according to the old fashion, to write the receipt upon the debtor's account, but to give the acknowledgment from a counterfoiled receipt book, the counterfoil containing in a condensed form the particulars of the receipt. This system is not only a positive assistance to the cashier, but it is also, up to a certain point, a safeguard against fraud. It is not complete, however, in this latter respect for two or three reasons: For example—If a cashier is dishonest he may when he receives money from persons who do not know the rule under which he is working, or from careless persons who, knowing the rule, are heedless as to its observance—he may in such cases write the receipt either on the account or on some other piece of paper, and the fact that he has received the money to which the receipt refers fails to be recorded against him. Or, again, he may enter on the counterfoil a smaller sum than he has received. And there are other ingenious ways by which counterfoils have been "cooked." Especially should the auditor be wary the moment that he finds the slightest disagreement between the dates on the counterfoils and those in the Cash Book. Of course the cashier runs risk in thus tampering with the system under which he is working, but the risk has been frequently braved. Unfortunately (for I think I may say unfortunately) another modern practice, which is becoming more and more general, helps to weaken the value of the counterfoil check. I allude to the habit of many large firms of sending with their remittances their own form of receipt, which they insist upon having returned, signed and stamped. Altogether you will see that the test of the receipt side of the Cash Account is beset with difficulty, and I think accountants in practice will, perhaps, at no distant date, have to consider whether a plan adopted now by some auditors in certain cases should not be accepted generally, viz., that the auditor should issue to every debtor on the books a circular stating the amount appearing due from him at the date of the Balance-sheet unpaid at the date of the circular, and requesting a reply direct in the event of inaccuracy: or what would be even more effectual as a check upon the cashier (although it would involve greater labour to the auditor), a circular giving the dates and amounts of the payments by debtors credited to them during the period under examination. The receipts from customers are not, of course, the entire receipts of any trading concern, but they form the great bulk of the receipts in most cases, and it will be a distinct advantage to the audit to secure periodically such a check upon the receipts as this plan obviously affords.

We now come to the form and wording of the Balance-sheet, and other questions relating to its compilation. Whenever a statutory form is provided it must, of course, be followed, and in all other cases it is important to see that the balance-sheet gives all the information which either the articles of association or custom require, but for our present purpose, and as we are still upon manufacturing and trading concerns, I think we cannot do better than take up the form of Balance-sheet laid down in Table A. of the Companies' Act, 1862, because it is based upon sound principles and is a very good general pattern.

On the Dr. side we have Capital and Liabilities, and on the Cr. side Property and Assets. With regard to this question you may have seen in a recent number of *The Accountant* a report of an interesting paper read by Mr. Guthrie to the Manchester Society of Accountants, on "The want of uniformity in the modes of stating accounts." With a great deal of his matter I agree, but I cannot join him in his condemnation of the modern method of stating the Balance-sheet, viz.: The liabilities on the left hand, and the assets on the right hand side of the account. This is not the time or place for me to enter into a controversy with another accountant, so I will content myself by saying that I regard the mode of statement in Table A. to be the correct one.

First then, to deal with the left hand or debit side of the

Balance-sheet:—and if I now appear to any of you to be trite in my observations, in addition to being necessarily dry, I must ask you to recollect that this lecture is intended for the younger members of your Society, as well as for those who have gained some experience. The heading is Capital and Liabilities. Capital shortly, is the sum of money adventured on any undertaking; and Liabilities in a Balance-sheet mean indebtedness ascertained or contingent—the measure in figures of the financial obligations incurred by the concern to which the Balance-sheet relates.

The capital of the company should be stated fully; first, the nominal capital according to the memorandum of association, and then the capital subscribed—giving the number of shares subscribed for, the amount of each share and the total. These two entries are by way of memorandum, and do not cast up in the amount column. Next comes the capital called up:—The number of shares of each description subscribed, whether ordinary or preference, or whatever the designation may be, should be stated, with the amount called upon each share and the total. This total forms the item of capital. If any of the calls are not paid, the total in arrear should be deducted, and deduction should also be made of the total amount paid upon all shares forfeited, payments made in anticipation of calls being added. The form in table A. provides for the publication of the *names* of the defaulters on calls. This is seldom, if ever, done, but perhaps, in cases of unsuccessful companies, such publication would sometimes be as effectual as a writ in recovering the arrears.

We will suppose, with reference to the item of capital, that we have under examination the first Balance-sheet of the company, and we shall therefore have to ask, in the first place, for the allotment book. The allotments must be compared with the applications for shares, and with the Memorandum of Association, in order that we may be quite sure that there is a good foundation for the allotment. The register of members should then be checked, to see that all the allottees have been duly included therein, their holdings correctly stated, and the deposit and calls properly entered; and finally, we must ascertain that these all agree in result with the entries of deposit and calls in the nominal or private Ledger, and that the capital subscribed is generally in accordance with the terms of, and within the limits prescribed by, the memorandum and articles of association.

In stating the Liabilities it is better, as in the form before us, to state first the indebtedness to creditors holding security of any kind. These securities generally take the shape of mortgages on the property of the company, or debenture bonds.

A mortgage is a deed by which a borrower as mortgagor pledges in favour of the lender as mortgagee any portion of his freehold or leasehold property as security for money advanced. I do not purpose in any case to attempt a strict legal definition of the formal documents to which it will be needful for me to refer, so it will be sufficient for me to say here that a legal mortgage generally contains covenants for the periodical payment of interest, right of re-entry and sale in case of default either of payment or interest of repayment of principal at the times agreed upon, and other provisions for the protection of the mortgagee. The nature of the transaction should be accurately recorded in the company's books, and as the giving of a mortgage by a company is a thing that cannot well be done in a corner, it will probably be found that the entries relating to it are more or less complete. In this description I have had in view more particularly a mortgage given as security for a specific advance, but it not unfrequently happens that under pressure a mortgage is given to the bankers of the company, or other large creditor, to secure an accrued debt, or some portion of it, or by way of general security. This may be done either by the execution of a legal mortgage, such as that described, or by what is called an equitable mortgage, *i.e.* the deposit of the deeds with the creditor, accompanied by a memorandum of deposit. Mortgages of this kind are not usually specified distinctly as mortgages in the balance-sheet although perhaps it would be better if they were.

Mortgages are given largely by private individuals as well as companies, more indeed by the former than the latter, in fact one sometimes meets with individuals steeped to the eyebrows in mortgage obligations; but there is another form of security partaking of the nature of a mortgage, which is peculiar to companies—I mean debenture bonds. Now the various forms of debenture, and the legal questions that have arisen upon them and are probably still capable of being raised, would together constitute of themselves a neat little treatise. Prudence therefore enjoins upon me only a very general reference to this form of security. The power of the directors to pledge the property or credit of the company, either through the medium of mortgages such as I have described or by the issue of debentures, is almost always limited by the Articles of Association; and the auditor should therefore see that these powars have not been exceeded. Debentures are generally issued at a fixed rate of interest for terms of years from three years upwards, or are payable upon six months' notice after the expiration of a stated term. Very frequently a series of debentures will be issued, the whole being secured upon specific property by a trust deed. In some cases the interest is paid by banker's draft or cheque, but more commonly what are called coupons are issued with and generally attached to the debenture—one for each half year's interest—payable at the company's bankers on presentation, less income tax.

All mortgages or debentures granted by the company must be entered, as provided by section 43 of the Companies' Act, 1862, in a book called the Register of Mortgages, which should contain in respect of each mortgage a short description of the property mortgaged or charged, the amount of charge created, and the names of the mortgagees or persons entitled to such charge. It will be incumbent upon the auditor therefore to see not only that the proper entries are made in reference to these securities in the books of account of the company, but also that those entries are in accordance with the register of mortgages.

Next in order come the bills payable, *i.e.* acceptances or promissory notes given to creditors in settlement of their accounts against the company, payable at one, two, or three months, or at the termination of some other period specified on the bill. The acceptance when given, as most of you know, ie entered in the bill book, charged to the creditor, and credited to an account in the ledger called "bills payable." As the bills mature and are paid by the bank, the bank is credited and bill account debited, and it is the balance of this bill account at the date of the balance-sheet which has to appear as a separate item amongst the liabilities. Now we are upon the subject of bills it will be well to refer for a moment to bills receivable, *i.e.* the acceptances or endorsements of customers handed over by them in settlement of the current accounts against them. You will find that in the form of statements of affairs submitted in liquidation or bankruptcy to the first meeting of creditors, there is distinct provision made for an estimate of the liability under this head in respect of bills discounted. It is not usual to make any such entry in the balance-sheet of a manufacturing or trading concern, but if, on striking the balance, any bills of an insolvent debtor are found to be current, provision for the loss anticipated on their dishonour, and for any other doubtful bills treated as good, should be made in the reserve against bad debts, which will have to be considered when we come to the credit side of the balance-sheet.

Following the bills payable on the Liability side of the Balance-sheet, we have the open and unsecured indebtedness of the concern, principally unpaid accounts for goods supplied, and services rendered. Interest on mortgages and debentures, and unpaid dividends—if there are any—are stated separately in table A., but they are frequently in practice, included under the head of "Sundry Creditors." If there is an overdraft from the bank, it should be disclosed on the face of the Balance-sheet, especially if it is in any way secured. This is not invariably done, but I think it ought to be. The form in table A. provides also for the separate statement of law expenses—I am sure, I don't know why; all law expenses should undoubtedly

appear as a distinct item in the Profit and Loss Account, and that seems to me sufficient. Before we leave the subject of "Sundry Creditors," let me say that an auditor should do his best to satisfy himself that all the amounts due to the creditors have been ascertained or provided for. Steps are generally taken by the management in well-regulated establishments to make sure that every liability is entered in the books before making the closing entries, but if there is any doubt whatever about this, such a round sum as the auditor may deem sufficient according to the circumstances of the case, should be added to the total of the creditors, by way of provision against unstated debts, otherwise your balance-sheet may not be entirely reliable, although I hope no account you pass will ever be so far wrong as the record of the small master I once heard of. The man had just set up as a sort of garret worker in the brass-foundry trade, employing three or four pairs of hands besides his own. An old shopmate meeting him shortly after asked him how he was getting on. "Oh! first-rate This (pulling out a handful of gold and silver) is what I have got left at the end of the first month." His friend immediately became filled with envy, and began to cogitate upon the possibility of his going and doing likewise; but very soon, and before he had arrived at any conclusion, he chanced to meet the master-man again, who said, "Oh! Bill, you remember me telling you how well I was doing, Well, I forgot that I hadn't paid for the copper."

We now come to a very useful item, the Reserve Fund. This is a most desirable fund in all cases; but in some companies, such as banks, it is not only desirable but essential, and the larger it is (within reasonable limits) the better. The Reserve is a fund built up out of undivided profits, supplemented by extraordinary gains (if any), such as premiums on shares; and it is, therefore, not only an element of stability, but a source of profit, because while serving as Capital it is not itself entitled to dividend. A great deal of discussion has from time to time taken place (more particularly in relation to banks) as to whether a Reserve Fund should be, or should not be, separately invested, and some have gone so far as to say that a Reserve Fund not specially invested is not really a Reserve Fund at all; but I cannot adopt this opinion. Regarded merely as an accumulation which has been reserved or kept back, there is no reason that I can see why it should not be (as it very often is) invested in the business of the company to which it belongs; but if the fund is to be regarded as a guarantee—as it frequently is, especially in banks—then doubtless it is prudent, in order to give confidence to depositors, to invest the fund outside the business; and this principle has been adopted very largely by banks during the last 20 years—the Joint Stock Bank here, in our own town, having the credit, I believe, of being one of the earliest to give it practical effect.

The last line on the Dr. side of the Balance-sheet is the balance of the Profit and Loss or net Revenue Account, if the balance is on this side;—unfortunately, it sometimes loses its way and gets on to the other. As, however, this item involves the consideration of the Profit and Loss Account, and as that account will be affected by entries on the Credit side of the Balance-sheet, we had better pass it for a time.

Table A. provides also for the statement of Contingent Liabilities as an addendum following the total of the Capital and Liabilities;—but the practice is, and properly so, to provide for these, either among sundry creditors, or, when the circumstances are special, or the amount important, by separate entry amongst the Liabilities.

Having now disposed of the Dr. side of the Balance-sheet—Capital and Liabilities—we proceed naturally to the Credit side, Property and Assets. I am not sure that there is any very clear line of distinction between the terms Property and Assets, and, probably, if the heading had been merely Assets, we should have had a sufficient description; but a literary balance is as pleasant and agreeable to our senses as a figure balance, so, as I suppose, as the compilers had Capital *and* Liabilities on the one side, they wanted Assets *and* something else on the other.

The Table A. Balance-sheet begins on this side with "Immoveable Property," subdividing it under the heads of Freehold Land, Freehold Buildings, and Leasehold Buildings. Probably most of you have, at least, a general notion of the difference between Freehold and Leasehold property. Put shortly, if you are the happy possessor of a piece of Freehold land, it is yours absolutely and for ever; you can dig down as low as you like, and (subject to any Borough Building regulations which may be for the time in force, and your neighbours' rights of light and air) you may build up as high as you like, and construct a building as beautiful or as ugly as you please. Indeed, for all practical purposes our rights, if we are freeholders, are unlimited, both upwards and downwards.

Leasehold property, on the other hand, is that which is built by A. upon land belonging to B.—B. having granted a lease of the land for the purpose for a stated term, subject to the payment by A. of a given annual rent. Leases of this kind are generally from 60 years to 99, but they are sometimes shorter, and there are leases occasionally granted for long terms such as 999 years, that being, you will see, substantially equal to freehold with an annual charge upon it. In leaseholds, when the term expires, the buildings on the land become the property of the owner of the land, and pass away from the leaseholder. Of course, leases are frequently renewed, but generally at a higher rental, because in most *Towns*, at any rate, the value of land tends upwards. There are other leases which we may, for the sake of simplicity, denominate prolonged tenancies, *i.e.*, cases where a tenant, or intending tenant, agrees to occupy at a fixed rental for 5, 7, 14 or 21 years. These leases, however, only acquire value in the event of the letting value of the property occupied increasing during the term of the lease, and they are not the kind of leasehold contemplated in the Balance-sheet.

The cost of the property should be stated, and for the leasehold property a sinking or redemption fund should be established and accumulated at compound interest, in order to provide for the extinction of the Asset which naturally ensues at the expiration of the lease, or else, as is more commonly done, the cost is reduced from time to time out of profits. Whether the Asset is good for the amount stated in the Balance-sheet will, of course, depend upon whether the Redemption Fund or the periodical deductions are sufficient. If building would last for ever, and plant never wear out, it is obvious that no such provision as this would be needful in relation to freeholds; but here again it is necessary to allow in one form or another for deterioration, and a very good plan, when it can be carried out, is to establish by means of a yearly per centage a fund to which the cost of renewals may be charged, and against which the value of obsolete or worn out and unrenewed property may be debited. A more general practice is to write off out of profit lump sums from time to time, but in my judgment the plan I have indicated is decidedly the preferable one.

The next items are Stock-in-Trade and Plant, but I will take Plant first. This in the Balance-sheet generally means the Moveable Plant, Machinery and Tools. It not unfrequently, however, includes some of the plant which is, legally speaking, attached to the property or goes with it. Please do not ask me to give you any definitions on this subject, because, as to what is or is not "attached to the soil" there is a fresh legal decision, I believe, on an average about every six months.

With regard to depreciation on plant, it may be achieved either by means of a fund such as I have sketched just now, or by a periodical deduction from the original cost sufficient to extinguish the amount by the time the machine, or whatever it may be, is worn out and useless. In this latter case the renewals may be charged to plant account, but care must be taken to increase the annual deduction *pro rata* with the extension of the field of plant. Perhaps the best way of all is to revalue the plant, when it can be done fairly and equitably, every year, in the same way as the stock is valued.

The stock is an item which always requires careful watching and investigation by the auditor. I am afraid that it is not an uncommon thing for a manager (when he suspects that the result of the trading will not be satisfactory) to get what I may

call an enhancing bias in his mind. Obsolete patterns and tarnished goods are apt under such circumstances to appear to him like *new and modern*, and are valued accordingly; but I would not by any means say that this is a rule: I am glad to admit that, as far as my experience goes, there is a great deal more integrity shown in this matter than some people think; but an auditor should not lose sight of the possibilities in this direction, and do his best to guard against the undue inflation of prices. It is well to compare the quantities and prices of the materials in the present lists with the quantities and prices of similar materials in the previous stocktaking, and seek explanation where needful, also (however carefully the stock may have been extended and cast and checked by the company's clerks) for the auditor to do some checking on his own account. The auditor should, after doing all this, require the manager or responsible officer to sign the stock-book as a guarantee of its accuracy.

In dealing with the item of book debts we must be careful to see that the bad debts are written off, and that ample provision is made by way of a Debt Reserve Fund for doubtful debts and for the contingency of bad debts accruing upon those considered good. The auditor should not be satisfied simply with the opinion of the management on this point—he should, for himself, examine into the age and condition of the several debts, and form his own conclusions. Discounts and allowances upon debts owing must also be provided for; this provision is best made by means of a percentage, based upon past experience in the same or similar trades.

Preliminary Expenses—the expenses connected with the formation of the company—form another item appearing in the earlier balance-sheets. This item should be written off gradually out of profits, and the sooner the better.

The bank balance (if there is a credit balance) and the cash balance complete the ordinary items on this side, and at the same time complete our review of the Balance-sheet of a Manufacturing and Trading concern.

We will now take a hasty glance at the Trade and Profit and Loss Accounts, and a hasty glance will be sufficient, because most of the important questions arising upon them have been considered in our examination of the balance-sheet. The items composing these accounts come, of course, like those in the Balance-sheet, from the Trial Balance, and have merely to be arranged in due order. When there are several businesses carried on by one company, or when its one business can be divided into distinct departments so as to show the relative success of each, separate trading accounts are prepared, and the joint or separate result of the several tradings brought to the credit of the Profit and Loss or Net Revenue Account, and against this are debited Bank Charges, Interest on Mortgages and Debentures, General Establishment Charges, Directors' Fees, &c. Generally speaking, too, as I stated early in my lecture, where there is but one Trading Account it is not disclosed, and the Profit and Loss Account simply contains on the credit side nothing but gross profit on working and transfer fees. Occasionally, but not often, the entire Trading Account is disclosed. I might, if there were time, stay here to consider the *form* of the Profit and Loss Account and the order in which the debits and credits should be set down, but this, though incidental to, is not an essential part of our subject.

We have now finished the audit of the first class of commercial accounts, viz.:—Manufacturing and Trading Companies, and exhausted, to a very large extent, what I should have to say on either of the others if it were taken by itself. I shall, therefore, merely have, in running through the remaining classes, to direct your attention to such special features in each of those I am able to deal with as it may be necessary for us to consider.

The second class of commercial accounts comprises Mining companies. Just in this immediate district we are chiefly interested in Coal Mining Companies, which have of late years proved a very dismal kind of investment; but some of our clients will now and then put their savings down some big hole in the chase after other minerals, more valuable when obtained, but often enough not found in quantities sufficient to warrant the outlay. Dealing with coal mines as the principal example of this class, questions of Capital and Revenue have to be very carefully watched, particularly as to the underground workings, and it is always desirable to get the Capital Account closed as soon as possible, to avoid improper charges against it - especially in bad times. These questions are too technical in their character to be discussed now, but I shall always be happy, privately, to throw such light as I may have at command upon doubtful points of this or any other kind, for the assistance of students who may care to come and ask me. *Royalty* is a term we shall meet with directly we have to do with mining. It means the remuneration paid to the lessor by the lessee for the privilege of seeking for and taking away the minerals under the lessor's property. It is sometimes rated upon the ton of coal, ironstone, clay, or other minerals raised and sold, and at others upon the acreage worked; but the acreage price is always based upon the tonnage of mineral which it is estimated underlies the surface leased. As a rule a minimum rent is provided for, which has to be paid to the lessor during the term of the lease, whether minerals are, or are not, gotten. During the sinking and first working of a mine, the minimum will naturally exceed the royalty on the minerals raised, but to cure this difficulty there is a recouping clause, which, when the royalty account for any quarter exceeds the minimum rent for the same quarter, empowers the lessee, instead of paying the excess, to apply it in reduction of the amount by which the total minimum rent paid in previous quarters may have exceeded the total royalty earned, and so on until the excess is extinguished. This arrangement introduces into the earlier Balance-sheets of Mining Companies an item which does not appear in those of the other classes, viz.: "Minimums paid in excess of royalties earned," an item which sometimes remains for years, because it not unfrequently happens, especially where there are more leases than one, that the coal under one particular part of the surface remains untouched for a considerable period, although the minimum has been, of course, regularly paid in respect of it. The chief point to remember in this place is that it occasionally happens that a portion of the coal paid upon not only has not been worked, but for various reasons never will be; in that case the minimum rent paid upon that portion of the undertaking should be written off as soon as possible—simply because it is an asset which can never be recovered.

There is another form of royalty paid, more particularly by Manufacturing Companies, viz. royalty for the use of patents. This class of royalty seldom includes provision for a minimum rent, and need not be further referred to here.

Before leaving the Mining Companies, I ought to mention the question of wagons. These are very commonly acquired on purchase lease for terms of 5 or 7 years, the conditions being a fixed rental of so much per annum, the wagons becoming the property of the lessee for a nominal consideration at the expiration of the lease. As the quarterly payment under a purchase lease covers both interest and principal, it is only partially chargeable to revenue; a simple plan of settling the proportion so chargeable is to estimate the capital value which the wagons will have left in them at the end of the lease—divide this into quarterly, half-yearly, or yearly sums, and charge these sums periodically to Capital. Thus you will have charged to Capital by the end of the lease just as much as it is presumed that the wagons will then be worth. I once met with a set of accounts in which the whole of the quarterly rentals had been charged to the Capital, but I need not tell you that that treatment of the payment was wrong.

Banking, Financial, and Investment Companies form the third class in our list, which is a very important one. I shall not have time this evening to do more than direct your attention to a few of the principal points calling for notice in relation to the first of these, viz. Bank Audits; but our consideration of these points will probably have some bearing upon the accounts of the other companies included in this class.

Section 44 of the Companies' Act, 1862, provides that every limited banking company, and every insurance company, and deposit, provident or benefit society under the Act shall, before

it commences business, and on the first Monday in February and August of every year, put up in the registered office of the company and in every branch office, in a conspicuous place, a statement in the form marked *D.* to the first schedule to the Act, or as near thereto as circumstances will admit. Many of you will have noticed on the walls of the local banks these statutory statements, which reproduce in a summarised form the Balance-sheet issued to the shareholders.

Any detailed reference to the questions that have to be considered by auditors of banks would necessitate for their due apprehension by you a preliminary description, at least in general terms, of the books and accounts usually kept in a well-managed bank. This, for several reasons, it would be somewhat difficult to give through the medium of a lecture, and certainly it would be impossible for me to attempt it now, so (although the subject is an interesting one) we must be content to confine ourselves to the consideration of some of the more prominent questions arising as it were on the face of the Balance-sheet.

It will be tolerably evident, even to the meanest capacity (but of course there are no mean capacities here), that in a bank of any kind the cash is a very important—indeed the most important—item. It is incumbent, therefore, upon the auditor to attend at the bank at least once in the year, and the rule is for him to do so on the last day in each half-year, to count the actual cash, notes, cheques, &c., forming the cash balance of the day, and to go through the bills in hand (which are scheduled that day for the purpose), to satisfy himself that the bills of exchange actually in hand agree in total with the balance of the bill account in the General Ledger. During the audit the whole of the balances of the General Ledger should be very exhaustively tested. The accounts with the Bank of England, London Agents, and other similar accounts, should be compared and agreed with the original statements rendered by the other parties to them. The accounts in the General Ledger which show the aggregate balance either due by or to the bank on current accounts, and by the bank on deposit accounts, should be compared with the detailed lists of balances as extracted from the Current and Deposit Ledgers, and the individual balances should be from time to time, as opportunity offers, tested by comparison also with the passbooks of the customers.

The overdrawn balances due from customers should be carefully scrutinised—more particularly those which are not secured, or, being secured, have exceeded the limits fixed by the Board of Directors; and I need not add here that one important part of the auditor's duty after making this examination is to see that in his judgment ample provision has been made for the losses likely to arise upon them.

The whole of the securities, whether absolutely the property of the bank or held as security for overdrafts by customers, must be examined—not only to see that they still remain in the hands of the bank, but that they are in order; and in this the auditor is frequently—perhaps generally—aided by the advice and assistance of the solicitor to the bank.

In this brief review I have but roughly sketched what the auditor has to do on the preparation of the Balance-sheet, and before he can certify upon it; a bank audit, however, to be effectual, should be more or less continuous, and the periodical examinations of details during the year systematic steps towards the grand roll-call at the end of it.

In 1879, after the lamentable possibilities involved in the liabilities of shareholders in unlimited banks had been made manifest in the circumstances attending the failure of the City of Glasgow and other Banks, an Act was passed to facilitate the registration of unlimited banks as limited, on conditions laid down in the Act, and then, for the first time, the audit of banking companies' accounts was made compulsory. I refer you to the provisions of this enactment, 42 and 43 Vict. c. 76.

[The lecturer here read section 7 of the Act, relating to audit.]

You will observe that, among other things, it is distinctly provided in this section that the auditor shall be furnished with a list of all the books kept by the company, and I may say here that it is not at all a bad plan to ask for this in other cases besides banks.

The fourth class includes insurance and guarantee companies, the most important of these being Life Insurance Companies. All *Life* Insurance Companies are now bound by the provisions of 33 and 34 Vic. cap. 61, passed after some heavy insurance company failures (which led to great injustice and hardship) in order to provide greater security to persons desirous of making provision by insurance for their familes after their death. Among other useful enactments, it prescribes a form of accounts to be prepared at the expiration of every financial year of the company to which it relates, and to be deposited at the offices of the Board of Trade.

I refer you to the forms scheduled to the Act.

[The lecturer read and briefly explained the forms of account alluded to.]

From these you will see that, in order to show distinctly the financial condition of every company doing other business besides the insurance of human lives, or the granting of annuities, provision is made in the accounts for separating the life insurance business from that of the other business of the company, whether fire, marine, or otherwise, the life department being always stated by itself. These provisions are very valuable; but the most useful part of the Act, after all, is that in which it provides for the periodical valuation and return set forth in the fifth and sixth schedules to the Acts. Naturally you will not expect to hear, nor will you hear, one word from me in depreciation of the work of the auditor with regard to insurance, any more than in reference to other companies, but in the case of a company granting insurances and annuities on human lives the auditor's certificate is not all that is required. The stability of the company cannot be fully tested without an actuarial valuation. The statement of assets and current liabilities may be quite correct, the funds of the company may appear to an unpractised observer ample for all contingencies, and yet the company may be practically insolvent. Now let us see why this is so.—The contingent liability of a life insurance company continues until the last survivor of its policy-holders dies or surrenders his policy, and the premiums charged for life insurance are based upon the average expectation of human life deduced from the tables of mortality, so that a man who first insures at the age of 25, having an average expectation of life much greater than one of 35, is not required to pay so high an annual premium as the older man, and so on according to age. Now, in order to ascertain whether the funds of a life company are sufficient to cover its net contingent liability on policies in force, it is necessary to calculate the present value of the liability to pay at death the sums assured to the policy-holders, having regard to their respective ages, and deduct from it the present value of the premiums which the assured have agreed to pay—the balance will be the contingent liability on policies in force. If this liability be less than the amount of the company's funds, there is, of course, a surplus and the assured are safe—if it is greater there is a deficiency, and the policy-holders are not safe.

The contingent liability of a Fire or Marine Insurance Company is much more easily measured, both as to its nature and duration; the latter rarely extending more than a few months beyond the end of its financial year.

Gas and Water Companies come next, being the fifth class on our list. As Mr. Impey gave you the outline of a water undertaking's accounts a fortnight ago in greater detail than I could for want of time attempt, it will not be necessary for me to refer to water accounts at all; I will therefore confine myself to gas.

Up to the year 1871 there were no statutory provisions of any service relating to the accounts of gas undertakings. The Gasworks Clauses Amendment Act of that year, however, laid down a very complete set of accounts, to be filed with the local authority within whose limits the undertaking is carried on, on or before the 31st March in every year, in respect of the transactions of the twelve months ended on the preceding 31st December. I invite your attention to these accounts. They are worth study if you have no gas accounts to audit.

They are very symmetrical, business-like, and complete. [The lecturer here read and explained the form of accounts referred to.]

I may say that until the early part of last year, it was supposed that the 1871 Act only applied to Companies established subsequent thereto, and to older Companies applying for further powers after it came into operation; but the judgment in the case of *Warmington v. the Dudley Gas Company* decided that this Act applies to all Companies incorporating the Gasworks Clauses Act of 1847, whether established before 1871 or afterwards.

Here, as in Mining Companies to which I alluded just now, the question of what is Capital and what is Revenue requires careful consideration, with this difference, that in a Mining Company there is generally a time when you can close your Capital Account. In a Gas Company that day never comes. Even in Puddleton-cum-slush, where the population decreases regularly every census, you would probably find that the gas consumption, and therefore the Capital expenditure, had gradually increased in a sleepy sort of way. Retorts require frequent renewal, the renewals being charged to Revenue, but if the line of sets, or beds of retorts, as they are called, is extended, that goes against Capital; so with other extensions of plant. Probably, the mode of dealing with the expenditure upon main pipes will be a good example of the principles we have to bear in mind in settling these questions. When the consumption in any district increases beyond the capacity of the existing mains to supply it, the engineer has to revise his system of distribution in that district, and rearrange his pipes. Where a 4 in. main formerly served a 6 in. is required, and a 6 in. is, in its turn, replaced by an 8 in., and so on. Suppose now we take up 100 yards of 6 in. pipe, and lay down the same quantity of 8 in., the excess value of the latter over the former is chargeable to Capital, but then in all probability the 6 in. pipe is laid down somewhere else, and in that event, you will be entitled to charge the whole of the 100 yards of 8 in. to Capital, taking care that Revenue bears the expense of taking up and relaying the 6 in. This is on the assumption that the old pipe is sound. The Capital value as they lay in the ground of all pipes taken up in a corroded condition and of all breakages must, of course, be charged to Revenue, less the value of the old material realised. That is all I need say upon the expenditure side of the accounts beyond this, that it is well, after investigation for yourself, to make the manager responsible by his signature, in a Capital Outlay Book, or in some other way, for all charges to Capital, and all such charges of any importance should have also the minuted sanction of the directors.

A word or two with regard to Income:—If the accounts are properly kept it is very easy to see that all the gas registered by the consumers' meters is charged to them. The meter state books, *i.e.* the books in which you see the meter inspectors enter the state of your meter, is arranged in order of streets, and contains three figure columns. 1. Last state of the meter. 2. Present state of meter. 3. Consumption: the latter is obtained, of course, by deducting in each case the figures in column 1 from those in column 2. The totals of the three columns can be cast for each street, summarised for the whole of the district of supply, and agreed. The rent rolls are made up from the meter books, also in street order, and should correspond. Formerly, it was usual to keep a Ledger Account with every consumer, but the modern system is to make the rent roll do the duty of the Ledger as well as its own. On the one side we have in separate columns meter states, consumption, rate and amount, arrears from previous quarters, fittings, and total. That shows what the consumer has to pay. On the other side we have date of payment and cash paid, discounts and allowances, bad debts, arrears carried forward, all in parallel columns. These cross cast will naturally, if correct, agree with the first total. There are some who will stick to the Ledger, but the plan I have sketched is the modern one, and I think the best.

Ledger accounts are still generally necessary for customers who buy coke, tar, ammoniacal liquor and other residuals on credit, and a sort of one-sided ledger account is kept with each consumer who has fitting work done for him, in order to arrive at the total to be entered against his name every quarter in the fittings columns of the rent roll. For further information as to the accounts, and as to the law affecting gas and water supply, I would recommend you to study "Michael and Shiress Will on Gas and Water"—a book which should be in your library.

Time would fail me (even if I were able) to treat as it deserves of the *sixth class of Commercial Accounts*, which is an important one, including, as it does, railway, canal, shipping, and other transport companies, and telegraph and tramway companies.

All railway companies are compelled to render their accounts in the form provided in the first schedule to 31 & 32 Vic. cap. 119, entitled "The Regulation of Railways Act, 1868." This form is most complete and exhaustive, and I should like briefly to call your attention to it.

[The lecturer here read the heads of accounts, and referred shortly to some of the leading features.]

I would also invite your attention to section 30 of the Railway Companies Act, 1867, which contains a most important enactment as to the audit of railway accounts, and affords food for reflection in relation to some others.

And now, gentlemen, I have done. I am conscious of many shortcomings, even in relation to the questions I have attempted to deal with, while, as you know, I have barely touched the fringe of one large class—the sixth—and have not said anything at all about the audit of uncommercial accounts.

Either of these might well form the subject of a paper to any one familiar with them.

You will, I am sure, agree with me when I say that each of the lectures you have already listened to in this your first session opens up a large field of inquiry—in fact, it is true of our work, as of the acquisition of all useful knowledge, that the more we learn, the more we find we have to learn; and the leaders of our profession—at any rate, those who are modest enough to admit it—would tell you, if you asked them, that they are still students. What you have to do then—what I have to do—what we all have to do is, to let slip no opportunity of gaining information which may tend to make us proficient, and then to apply the abilities with which we may have been severally endowed, and the knowledge we have been able to acquire, to the faithful and earnest practice of our profession—a profession which will become more and more honourable as we become more and more worthy to be members of it.

After the lecture, questions were asked by Messrs. Ellerman, Charlton, Woodward and Attlee, and answered by the lecturer.

A vote of thanks to Mr. Joseph Slocombe was moved by Mr. J. R. Ellerman, seconded by Mr. H. F. Woodward, and enthusiastically carried.

The meeting terminated with a vote of thanks to the chairman, moved by Mr. W. Charlton and seconded by Mr. J. A. Cudworth.

LIVERPOOL CHARTERED ACCOUNTANTS' STUDENTS' ASSOCIATION.

The Inaugural Meeting of the Liverpool Chartered Accountants' Students' Association was held at the Law Association Rooms, Cook-street, on Wednesday, the 28th February, 1883, at half-past seven o'clock, A. W. Chalmers, Esq., F.C.A. (the president), occupying the chair. There was a numerous attendance, amongst those present being Messrs. Edward Mounsey, T. W. Reed, William Alexander (Vice-president), Astrup Carriss, Henry Lawson, T. Theodore Rogers, &c. &c.

The Secretary (Arthur E. Wright), in his report on the formation and object of the Association, mentioned that on the 8th December, 1882, a circular was sent to the Chartered Accountants of Liverpool asking them to furnish the committee with the names of those in their offices who were eligible to pass the final examinations. When the answers had been received a further circular was sent, on the 17th January, 1883, to the clerks, inviting them to attend a meet-

ing to ascertain whether it was thought desirable to establish a Students' Association for the Liverpool centre. This meeting came to the conclusion that it was desirable, and thus the Association was formed. The Association was formed for the purpose of advancing its members in the knowl dge and study of accountancy, and thus helping students to pass their examinations, and it was to be hoped that it would be one of the means of raising the profession of a Chartered Accountant. To carry out this object it was proposed to have a Library; for without study no student would be able to pass the examinations. In addition to the establishment of a library, lectures would be given dealing with the principal branches of the profession. And the committee intended to put forward, so as to raise points for discussion, *pro formâ* liquidations, bankruptcies, balance-sheets of companies, and thus give to students an opportunity of becoming thoroughly acquainted with the several branches of the profession.

The President then delivered his Inaugural Address, and said:—

Gentlemen,—I have, in the first place, to thank you for the honour you have done me in electing me the first President of the Chartered Students' Association for the Liverpool centre. I look forward with hope to the future of the Society, as a means of education both in theory and practice, and that, if the students take advantage of their opportunities, they will be fully qualified to pass their preliminary and final examinations so as to entitle them to be Chartered Accountants; all cannot at once expect to become Associates in practice, but those who are diligent will in due time get their promotion.

The profession of accountants took its rise about the middle or the end of the last century; previous to that date, the accountancy—which no doubt was mainly the preparing accounts for the law courts, executorship accounts, and some bankruptcy—would be done by the solicitors and the attorneys (as they were then styled). It may be, that the inability of the solicitors and attorneys to deal with intricate accounts would naturally make them look out for persons competent to do the work; also the extension of commerce and the rise of large firms would aid much in calling out men capable of grappling with difficult and complicated accounts. As far as I can make out, it was from the class of bookkeepers that the first accountants sprung; for I find, on consulting the old directories, that persons who appear as bookkeepers in one issue are called accountants in the succeeding one, and in some cases, persons who appear as accountants in one directory fall back to bookkeepers in the next. On accountants being called in, the solicitors and business-men would soon find the value of having persons skilled in accounts, and this, no doubt, led to their being frequently employed, and it followed that the demand increased the supply, as each year saw an increase in their number.

There are no accountants to be found in the Liverpool Directory for 1766. In the Directory for 1790 there are five: three of them call themselves simply "accomptants," one is a "mercantile accomptant," and the fifth styles himself "mercantile accomptant and dealer in tin plates." In the Directory for 1796 there are ten accountants named. Nine of them style themselves "accountants," and one "broker and accountant." Of these only two continue to the present day, viz., Joseph King and Joseph Redish (in the Directory for 1790 both are styled *bookkeepers*). The former seems to have acted as broker and accountant; the combined business was apparently carried on until about 1843, as in the Directory for that year this firm appears as Joseph King & Son, stock and share brokers only, the accountant having been dropped and never after resumed. There is now no one of the name of King in the firm.

The Joseph King named in the Directory for 1796 was the author of King's Interest Tables, which no doubt you are all familiar with. I cannot say when the first edition was published; I have the fourth, which is dated 1804.

The other accountant named in the Directory for 1796, whese business has been carried on continuously under a succession of firms, is Joseph Redish. I subjoin a statement taken from the Liverpool Directories showing the variations to the present day.

In 1803 it was Redish & Bird, in 1807 Redish, Bird & Eden, in 1813 Redish, Bird, Eden & Co., in 1816 Redish, Bird & Redish, in 1821 Redish & Bird, in 1837 Redish, Bird & Prince, in 1839 Reddish & Bird, in 1841 Redish, Bird & Marsden, in 1843 Bird & Marsden, in 1847 George Marsden, in 1871 Marsden, Pearson & Wade, in 1877 Chalmers & Wade.

Accountants, besides being employed as before stated, were called in by merchants and traders to make up their books, or if their books were written up to audit them, to take out the Profit and Loss Account, and to balance them, and if there was a partnership, to adjust the accounts of the partners; but the most important of our duties is the department of Bankruptcy; this offers the widest sphere for our public usefulness and for fair and legitimate remuneration for our services. I think it is impossible to trace, even in the most cursory manner, the course of modern legislation on this subject, without finding unmistakeable evidence of the growing importance of our profession, and with it, the increasing appreciation by the public o fthe services we render.

The earliest Act of Parliament relating to Bankruptcy was passed in the time of Henry the Eighth. As a matter of curiosity, I may mention that the Act describes itself as having been passed to deal with those "who craftily obtaining into "their hands great substance of other men's goods do suddenly "flee to parts unknown, or keep their houses, not minding to pay, or return to pay, any of their creditors their debts "and duties; but at their own wills and pleasure consume the "substance obtained by credit from other men for their own "pleasure and delicate living against all reason, equity and "good conscience."

I am afraid the description which held good then, may be said to apply even now; indeed, if to the evils so described we add the perils of speculation arising from the haste to get rich, we shall find the causes of a very large proportion of failures.

My experience dates back to modern legislation concerning bankrupts, viz. the Act of Parliament which came into operation in 1832. This Act created a Court of Bankruptcy, and remodelled the administrative machinery of the Bankruptcy Law by the introduction of Official Assignees, in whom, and assignees chosen by the creditors, were vested the bankrupt's effects, although the official assignee was exclusively entrusted with the duty of receiving the proceeds. This act was confined to bankruptcies arising within 40 miles of London. Country bankruptcies were directed to be presented before commissioners selected for that purpose by the Lord Chancellor from barristers and attorneys in the different circuits, recommended by the judges of assize. The great feature of this system was the official assignee—he was to be a merchant, broker, or accountant, or a person who was or who had been engaged in trade. So far as my knowledge goes, this is the first time that accountancy is recognised in an Act of Parliament as a distinct profession or calling. The new system was found to work better than that which previously prevailed, and in 1842 an Act was passed establishing seven districts, which covered the remainder of England and Wales and placed the whole of the country practically under the same rule. The machinery established by those Acts was, however, found to be cumbersome in practice, and great dissatisfaction arose, to remedy which Lord Brougham introduced and got passed the Bankruptcy Law Consolidation Act, 1849, which, as its title tells you, consolidated all the then existing Acts of Parliament relating to bankrupts. This Act also considerably altered the existing law. It lodged with commissioners (in other words the judge of each court) the power of giving, or withholding, or suspending, or annexing conditions to the bankrupt's discharge. It for the first time divided the certificate of discharge into classes, viz. the first declaring the debtor's insolvency to be attributable entirely to unavoidable misfortune; the second, that it was not attributable entirely to that cause; and the third, that it was attributable wholly to causes other than misfortune or accident. This Act also introduced a new order of things, as it enabled a debtor when he found himself involved to place himself and his pro-

perty under the protection of the Court, and through its intervention without actual bankruptcy to effect an arrangement for the payment or compromise of his debts, binding on all his creditors provided he could obtain the assent of a majority of three-fourths in number and value; or if the debtor, without recourse to the Court, could obtain the assent of six-sevenths in number and value of his creditors to an arrangement involving the distribution of his entire estate—this also was made binding upon his creditors. The Liverpool accountants anticipated that the Act of 1849 would seriously interfere with their business; but in truth, instead of lessening, the procedure under the Act increased it. Debtors anxious to obtain their certificates (which you will bear in mind were to be granted by the commissioners, and not by any action of the creditors) required statements of their affairs to be prepared, including deficiency and other accounts. Creditors who opposed the granting of certificates, or wished to have conditions annexed, required the statements to be thoroughly investigated. Debtors who desired to have arrangements carried out dispensing with bankruptcy, sought our aid as trustees under deeds of assignment or arrangement, or as accountants discharging the duties as trustees in their names. Great things were anticipated from the working of this Act, but the result did not equal the expectation, and the mercantile community began to complain that creditors had not sufficient control over the working of the bankruptcy. The interpretation put upon the arrangement clauses, namely, that those deeds only were binding upon a dissentient creditor which dealt with *all* the debtor's effects, placed composition arrangements outside the Act, and therefore rendered them practically impossible. These considerations, added to the opinion which had become general that there ought to be the same law for non-traders as for traders in the event of insolvency, led to the amendment of the law by the Act of 1861. By this Act official assignees were practically abolished in favour of creditors' assignees, as the former were, after the appointment of creditors' assignees, deprived of all power to interfere actively in the realisation of the estate, except in the collection of debts not exceeding £10. But the great feature of the Act was the provision for facilitating arrangements by deed. This secured to the debtor time sufficient to obtain the assent of his creditors to such an arrangement, without the risk of bankruptcy in the meantime, and enabled a majority in number and three-fourths in value of the creditors to bind the minority to an arrangement which might be a composition or which did not necessarily involve an assignment by the debtor of all his effects.

The passing of this Act led to a larger increase of business n bankruptcy matters to accountants than had resulted from the passing of any previous measure. Nearly every insolvency of any importance was dealt with under a deed of inspectorship, or arrangement, or composition, and in each case almost invariably the services of an accountant were necessary.

The system so introduced in its turn led to great dissatisfaction. Creditors were not required to prove their debts by affidavit. Debtors were not required to call any meeting of creditors, and in the great majority of instances did not, and therefore did not make any open or general declaration of the state of their affairs. Creditors were personally and individually canvassed to give their assent to a deed, which they did, on the representations made to them; and representations might differ with each creditor.

To remedy these evils the present Act, viz. the Bankruptcy Act, 1869, was passed. By this Act the country district courts, with their train of commissioners, registrars, and other officers, were abolished, and the working of the present system placed under the control of the County Courts. Official assignees were abolished, and with them even the name of assignee; the persons by whom the debtor's assets are to be distributed is now called a trustee. Creditors have the power to appoint a Committee of Inspection. Although the machinery of an actual bankruptcy is maintained. power is given to a majority in number representing three-fourths in value to resolve that the affairs of a debtor shall be wound-up by arrangement, and not in bankruptcy. In truth liquidation by arrangement is a bankruptcy without a petition for bankruptcy or an adjudication. Even in bankruptcy power is given to the creditors by the majority I have named (but with the approval of the Court) to accept a composition from the bankrupt, or to assent to a scheme for the arrangement of his affairs, upon such terms as may be thought expedient, one of which may be the anulling of the bankruptcy; by the like majority, the creditors may accept a composition without bankruptcy.

As official assignees are abolished, and as the whole scheme of modern legislation proceeds upon the assumption that it is better to leave to the creditors the administration of their debtor's affairs with as little official interference as possible, it follows, as the creditors cannot in a body carry out the liquidation, that the services of a skilled accountant must be required, whether the liquidation is by bankruptcy or by arrangement, and accordingly it will be found that an accountant has been the trustee in all insolvencies of any magnitude, and, with four exceptions, in all liquidations of even less importance.

We were named in the Act establishing the system of 1832 as persons suitable from experience to act as official assignees, and the whole run of subsequent legislation points to our fulfilling the important duties of trustees, which now include the duties formerly discharged by both official and creditors' assignee. As this has been done not merely with the assent, but on the importunity of the commercial world, I think you will agree with me that I did not overrate the importance of our profession, and of the duties they have to discharge, when I stated that in the course of modern legislation we find unmistakable evidence of the growing importance of our profession and of the increasing appreciation by the public of the manner in which we discharge our duties. It is true that occasionally we hear complaints of the cost of liquidations, and it is no less true that in some cases (for it would be folly to deny it) these complaints are well founded; but in the majority of instances the complaints are made without consideration. As a rule, a creditor compares the dividend he has received with the amount of his debt, and hastily draws the conclusion that the difference represents the cost of liquidation. It is a common failing of human nature to seek to blame others for our own mistakes, and a creditor smarting under his loss is very apt to blame those entrusted with the liquidation for his loss, or, at least, to extend to them the dissatisfaction he feels towards his debtor, rather than to ask himself who was to blame for giving the credit.

However, the time has again arrived for the commercial community to have their requirements for an amendment satisfied, and I have little doubt the Bill now introduced by the Government will be carried in its present or some modified form. I think it would have been better to have amended the existing Act in those respects when the system it established was proved unsatisfactory. A new Act often makes a new state of things, requiring many decisions before the language of the Act is accurately understood, and this involves enormous expense. The changes to be introduced are practically administrative and refer to the machinery only. The principles of bankruptcy are only slightly modified; but whatever the changes may be, our position is too well established, and, I may add, our services are too well appreciated by the general public to make any material alteration in the demand for them possible.

Next to bankruptcy, the Joint Stock Companies Acts have given a wide sphere for our public usefulness and remuneration. The Joint Stock Companies Act for 1856 was very partially understood by the public; but after the passing of the Act of 1862, a better understanding of the advantages given by it was come to, and a considerable number of limited companies sprang into existence. As time went on their number continued to increase, and of late it would seem as if the public thought all business of any importance should be worked under that and the subsequent Acts, including the last one of 1880.

Accountants were employed necessarily in the bringing out of Joint Stock Companies, in examining the books and accounts

of each business, in preparing statements, &c., and in giving their services in bringing them before the public, and lastly, in being appointed auditors. Some of the companies did not engage professional auditors; but as time went on, accountants were more employed, and the feeling of the public is that they should be generally called in.

With respect to Societies, the Scotch were the first to see the advantages of having them. The Edinburgh accountants applied for and obtained a Charter in 1854, and those of Glasgow in 1855. These societies had rules not only for the admission and conduct of their members, but also requiring that the students should go through a definite education and be examined before admission.

When the Bankruptcy Act of 1869 came into operation, one of the Liverpool accountants thought it would be a good time to form a society. Public opinion in England was not then ripe to apply for a Charter, and all that seemed possible was to form a society, the objects of which were—

"1. The protection of the character, status and interest of "the accountants of Liverpool, the promotion of honourable "practice, the settlement of disputed points of practice, and "the decision of all questions of professional usage or courtesy "in conducting accountant business of all kinds.

"2. The consideration of all general questions affecting the "interests of the profession at large or the alteration or ad-"ministration of the law."

The society was formed on the 25th of January, 1870, and called The Incorporated Society of Liverpool Accountants, and was duly licensed by the Board of Trade under the 23rd section of the Companies Act, 1867.

There was considerable difficulty in forming the society, and had it not been for the willing help and assistance of the late Mr. Timpron Martin, it would not have been accomplished. The late Mr. Harmood Banner was the first president, and he told me that when he informed some of the leading accountants in London of what had been done, they seemed to think it useless and unnecessary; but on mature reflection they altered their views, as on the 29th of November, 1870, the Institute of Accountants in London was established; Manchester followed, their society having been formed on the 16th of February, 1871; then on the 11th of January, 1873, the Society of Accountants in England was established; and finally, that of Sheffield, on the 14th of March, 1877. These four societies, though useful in their way, were diverse in their action and did not effect what was really wanted, and that was, that accountancy should be recognised by the public as a profession. This became more felt as time went on, and it led to the presidents of the several societies with one or two other accountants being deputed to meet and discuss the form of petition for a Charter. After much patient work the petition was lodged, and on the 11th of May, 1880, it was granted, and the Institute of Chartered Accountants in England and Wales was established. This date may be considered as an epoch in accountancy, as it was only then that it could be considered a profession, and if the Chartered Accountants do their duty, there is no doubt the profession will stand as high as any of the other learned professions.

Soon after the formation of the Institute, a committee (of which I was one) was formed to prepare the bye-laws. It took long and mature consideration and many meetings ere these bye-laws were framed, and it was not until the 21st of March, 1882, that they were allowed by the Privy Council.

We could not have obtained a Charter, unless we had set out that accountants who were really practising at the time of applying for it should be admitted to its privileges; and, by clause 4, all the members of the four societies before referred to were at once admitted. I fear in this wholesale admission some accountants have the right to put F.C.A., or A.C.A., after their names who will not do credit to the Institute.

The Bye-laws Committee had to carry out that part of the petition which said, with respect to the admission to membership of persons hereafter desirous of entering into the profession: "The Petitioners contemplate that a strict system of "examination should be established, including a Preliminary "Examination before the candidate for membership enters on "service under articles; an Intermediate Examination, to be "held in the course of the service, and a Final Examination; "and that no person be allowed to present himself for the Final "Examination unless he has served for five years at least, or "if he has graduated at any of the Universities of the United "Kingdom, then for three years at least under articles as a "Public Accountant's clerk." A reference to the bye-laws will show that the committee have carried out that part of the Petition, as, out of 117 clauses, 39 of them refer to the articled clerks and their examinations. It will be seen how important it is that articled clerks should thoroughly learn all matters pertaining to the profession; and, as it is not in every accountant's office that all the branches, such as auditing, adjustment of partnership and executorship accounts, liquidations, bankruptcies, receivers in chancery, &c., are carried on, some articled clerks, though well up in one or more of these branches, might know little of the others. Birmingham was the first to point a way out of this difficulty by forming an Accountant's Students' Association, "the objects of which "were the the advancement of its members in the knowledge "and study of accountancy." The rules were passed on the 4th of May, and the inaugural meeting held 5th of October last. Manchester was the next to form a similar society, and we are now met at the inaugural meeting of the Liverpool Chartered Accountants' Students' Association. Newcastle-on-Tyne is also in the field, and I trust ere long we shall have a Students' Society in London.

Before speaking more particularly of this Society, I wish to state that it is to Mr. Edward Mounsey we are indebted for it, as he obtained full particulars from Birmingham, and the first circular emanated from his office. He also found the ways and means, and assisted in getting the Society into its present position. The Society now consists of 35 honorary and 53 ordinary, in all 88 members, of whom 13 are from my own office.

I do not intend to go into the rules further than to state, "That the objects of the Society shall be the advancement of "its members in the knowledge and study of accountancy." That there are to be lectures, papers read, and discussions. I think we may look forward to a full number of subjects being discussed during each session.

The first element of success for a student is to have a good character, to be sober, truthful, diligent, and courteous, and, as I am addressing many young students, I take the opportunity of pointing out the great advantage of good and rapid handwriting. This will be found useful in passing your examinations, and also, if need be, in getting employment. We look at a letter received, if we do not know the writer, and form an opinion of him from it. I think there is a good deal to be gathered from the handwriting of persons. Then it is of great consequence being able to do the first rules of arithmetic accurately and quickly, indeed, addition and substraction are constantly being required in bookkeeping, and in almost every account. I would also recommend you to cultivate the habit of expressing yourselves clearly, both in writing and speaking. This is a matter of very great importance, and can only be acquired by diligence and perseverance, but, once acquired, it is invaluable; a student who can express himself clearly will have great advantages, and be able when required to lead a meeting. I therefore think that one object of this Society should be training students to speak in public without hesitation. If you have not already a fair knowledge of French and German, I strongly recommend you at once to acquire it, and those of you who know those languages to keep up your knowledge of them, as you will find in the course of your business that letters in both languages come before you. It is true you can get them translated; but there arise cases where it is desirable that you should for yourself know that the translation given is the true one. I need scarcely say that punctuality is invariably expected of an accountant, apart from the duty of keeping your word; it is a duty you owe to your neighbour, not to waste his time, and I feel sure that a habit of punctu-

ality tends greatly to success, both in the position of accountant and articled clerk.

There is one thing that I want to impress upon you all, that is if I may use the word, THOROUGHNESS; I mean that in all you do, you give the very best work you can do, and lastly, it is of the greatest consequence that you should in all cases treat all you see and hear in every business as not your own, and keep it sacred: this is incumbent on you whether you are clerk or accountant, it is right in itself, and there is nothing that tends more against anyone than disclosing matters he has heard and seen in any office where he is employed. If you follow this advice, with steadiness and hard work I think there is no doubt of your succeeding.

I do not intend at this time to speak of the several branches of the profession; these will be dealt with in future addresses; but before concluding, I would point out to you the necessity of being good bookkeepers: by this I do not mean the mere mechanical keeping of books, but such a thorough knowledge of the principles of bookkeeping that you would be able at once to grapple with any set of books, in whatever way they were kept. When I first commenced business, and before I had experience, I found it often useful, when some intricate question of dealing with accounts came before me, to work it out on the principles of bookkeeping, and if it came out right that way I felt sure I was on safe ground. I have up to this time referred solely to your technical education; I have now to say to you that *that* alone will not make a competent accountant; you require beyond this a general knowledge of business and how it is conducted, if possible, the minute details which vary in every separate business, that you may, if called upon, be able to frame not only a set of books, but all the subsidiary ones, which vary according to the business. You should, therefore, take every opportunity of acquiring knowledge of all kinds of business, including a knowledge of the currency and exchange of various countries. You will no doubt have opportunities in the office in which you are articled in assisting at the audits, &c. of merchants' and traders' books and those of limited companies, in cases of receivership where the business is carried on, also in the liquidation of estates. If you use your time well, and take every opportunity, you may acquire, while still an articled clerk, much valuable information which you will find of great value in your future career.

In conclusion, I look forward with hope to the success of the Liverpool Chartered Accountants' Students' Association. I trust each of you will do what you can to promote its usefulness by regularly attending its meetings, and when there are subjects for discussion, reading carefully all that pertains to them, so that if required you can rise and speak to the question: those of you who are competent I trust will come forward and read papers on matters connected with the profession, so that at each meeting there may always be matters of interest to one and all, and I hope you may all in due time become members of the Institute of Chartered Accountants in England and Wales.

Mr. H. E. Eastwood (an ordinary member) moved that the best thanks of the meeting be given to the President for his address. Mr. Edward Mounsey (one of the Vice-Presidents) seconded the vote of thanks, and, in the course of his remarks, said he thought the thanks of those present were due to Mr. Addinsell and the Birmingham Students' Society for the help which they had afforded in assisting to make the Liverpool Association a success. He thought, in reference to the proposed library, that Mr. T. W. Read, as Secretary of the Liverpool Society of Incorporated Accountants, might give a donation of £20 out of the surplus funds of his Society, and for which they seem to have no immediate use, so as to start a library, and thus give the students every opportunity of study.

Mr. T. W. Read (one of the Vice-Presidents) supported the vote of thanks.

Mr. A. W. Chalmers having replied, the subject of the next meeting on the 14th March was announced, which was a lecture by Mr. Astrup Carisson, "Arbitration."

This closed the proceedings.

LIVERPOOL CHARTERED ACCOUNTANTS' STUDENTS' ASSOCIATION.

The Second Ordinary Meeting of the above Association was held at the Law Association Rooms, Cook Street, on Wednesday, the 14th of March, 1883, at 7 o'clock.

Mr. A. W. Chalmers, F.C.A. (the President), occupied the chair, and there was a large attendance of members.

The chairman called on Mr. Astrup Cariss, F.C.A., to deliver his lecture on "Arbitrations and Forms of Balance-sheets," which is as follows:—

I.—CONCERNING ARBITRATION.

Some surprise has been expressed to me at my selecting "Arbitration" for to-night's address. It seems to my friendly critics that I am beginning at the wrong end. They are of opinion that Arbitration should be the last instead of first of your opening session's lectures.

Two considerations governed my decision. One is pardonable; many of my professional brethren will be found willing to address you on one or other of those departments which are numbered 1 to 6 in the Institute's 82nd bye-law. They are able to give you clearer and more efficient guidance than I am gifted with power to accomplish. It is therefore in your interests, and to leave a wider field of choice for those who may come after me, that I have denied myself easier and more congenial work, in taking a subject which I assumed no one else would bring before you within the present year.

Then next, so far as instruction in the subject comes within the scope of my attention, I am logically right in placing it in the front of other branches. You are not all now beginning your student's career; have not all to be classed on the same rudimentary level which would point to bookkeeping as a necessary commencement to these lectures. Some of you will seek admission at the next *final*. Knowledge of the principles of Arbitration is one of the tests then to be satisfied. From its being a new, and I may almost say a foreign subject, it is probably the one in which those concerned are least prepared; in which they would most desire assistance; and for which, through the nearness of the ordeal, they have a prior claim to the aid your lecturers are able to give them. The rest of your members have before them a longer future for those opportunities which, alas, are too often only seen to be golden at their setting, when they are sinking out of sight, and beyond recall, into the dark depths in which all wasted life is for ever lost.

But it is not my intention to read you an essay on the principles of Arbitration. This would more properly fall to a member of the legal profession. It would be inappropriate for a layman to venture on such elevated ground. I have availed myself of the subject for a less ambitious aim.

I must confess to some surprise at Arbitration being included in the Institute's scheme of intermediate and final examinations. It is so much a lawyer's department as to have the appearance of invasion of that profession's 'liberties'; and your being directed to that great work on the subject "Russell on Arbitration and Award" might be regarded as indicating your being expected to attain as extensive and perfect knowledge thereof as must be acquired by lawyers.

But it is not in the nature of things that that could be intended; nor is it probable that any of you would be *plucked*, who, having satisfied the examiners in Nos. 1 to 7, proved imperfect in your acquaintance with No. 8. I am confirmed in the opinion that only an easy test will be applied, by the questions thereon in the two half-yearly examinations which have already taken place. I therefore feel I may venture to say to such of you as are intending to submit yourselves to the forthcoming Midsummer examinations, do not let anxiety on the subject of Arbitration lead you to give to its study an undue proportion of your time, to the neglect of branches in which you will rightly be expected to possess competent knowledge.

I cannot help regretting that in an "off" subject, which Arbitration is, students are left to acquire their knowledge, for the purpose of passing, from such elaborate works as Russell's book. In strictly professional work it is undesirable to pre-

scribe authors, for knowledge of the subjects, in the widest sense, and not of special books, should be encouraged; but, in what chiefly relates to *another* profession, it is scarcely fair to leave the student to acquire his knowledge from books of such a scale and character as the work I have mentioned. Some small comprehensive treatise, giving principles broadly, and free from those many subtle distinctions which are of the greater interest to legal practitioners, but are too numerous and confusing for accountants' students, should be prescribed as the book on which the examination would be conducted.

But while I hold the opinion I have expressed, as to the scope of reading which should be made compulsory, and that accountants, whatever their knowledge may be, ought resolutely to abstain from taking on themselves purely lawyers' responsibility and work, yet I am also of opinion that a careful study of Russell's book is in the highest degree desirable. It compels the reader to see with other eyes than those of his own preconceptions; to recognise that every question has two sides; to concede opponents' rights; to act within the limits of fairness to both sides: and it exerts a beneficial influence of a nature which an accountant's ordinary practice does not supply. It is well calculated to develop that judicial-mindedness which is not less necessary than knowledge, shrewdness, and integrity for the due discharge of the onerous and honourable functions of an Arbitrator or Umpire.

For the most part Arbitrations which are of interest to our profession involve disputed accounts; but other matters of difference, or of statutory arrangement in which dispute has not arisen, such as a certain Local Board apportionments, occur, in which accountants are equally fitted to act. The practice of referring to Arbitration is increasing, especially in relation to accounts, and it is likely to grow more and more, because the results are generally more quickly reached than in courts of law, and at much less cost than lawsuits entail. The growth of commerce has so much increased the claims on our law courts as to make references therefrom a welcome relief. In the country's best interests this should be encouraged. With the existence of an associated body of trained and capable men, and with the competence of these recognised, as it ought to be, both in enactments and in the Courts, a large accession of accountants' business, of a kind which could not fail to add to the profession's status and dignity, might reasonably be anticipated.

I have said that accountants ought *to stick to their own last.* The reading of Russell's Arbitration will probably convey the same lesson to those who study it. It will show them that a little learning is a dangerous thing; will tell them where to act of themselves; where to stop; and when to call in the attorney's help.

But if we as a profession thus refrain, are we not entitled to be met in the same spirit? Why, I would ask, should Parliament enact, no longer than a year ago, that in a matter which is purely one of account, if difference arise *it shall be decided by a barrister?* But this is just what has been done, *since* our Incorporation, in the Municipal Corporation Act, 1882; and this is not the only case in which Parliament has altogether excluded us from acting, where our profession singles us out as *the* men for the work. Such enactments should be revoked. Our President can tell us if the matter has had the attention of the Council of the Institute. It is worthy of their consideration.

Another subject naturally arises here, on which to say a few words.

I was recently asked, what is the use of your Charter, seeing you are not protected like the legal and medical professions; any one who is not chartered being as free to practise as yourselves?

Now there is no one who is more in favour than myself of the right to practise, in any profession, upon the title of duly ascertained and certified competence, and without the illegitimate help of that unmitigated evil to society in every shape and form—monopoly. The Institute of Accountants is without any element of monopoly. It is on their competence and ability that its members have to rely for success. This is as it ought to be. But in respecting the privileges of the protected profession with which they are brought so much into contact, it is only right that they should duly watch their own interests. Hitherto accountants have probably felt scarcely independent enough to claim juster and more equal conditions, where the two professions appear in competition. Under the impending change in the Bankruptcy Laws, the approximation, through mutual interest, of the two professions, will probably be diminished. Accountants will have to look out for themselves. Certainly it is impossible, either as public policy, or as fairness between man and man, to approve of legislation which restrains accountants from in any way trenching on the ground occupied by lawyers, *and permits the latter to act as accountants and estate agents.* This also claims the attention of the Council of the Institute.

Perhaps, without a few words more, I shall not only fail to connect it with the subject of this address, but the importance of the interests involved will not sufficiently appear. There are, at the present time, numerous matters, in connection with accounts, which are referred by public boards, as well as courts of law, concerning which no statutory prescription as to the arbitrators to be appointed exists; but in which, I believe, it is the general practice to send then to a salaried officer of one or other court of law. I refer to cases altogether free from any questions of law. Surely it is a legitimate object of our profession to seek that they shall be sent to those whose special business it is to deal with them.

It is only by the members of our profession rendering themselves individually worthy, in the highest degree, of the responsible duties they have to perform, and by the Institute, on their behalf, securing fairness for them as a body, that it can rise to the position it ought, and I believe is destined, to take. So long as we are content to receive the crumbs which fall from another profession's tables, when we should be sitting at our own board, we shall scarcely, as a whole, be fit for that loftiest height of an accountant's profession—that of sitting to exercise those judicial qualities of mind which are required in the office of arbitrator!

II.—AND, INCIDENTALLY, CONCERNING BALANCE-SHEETS.

The need of our cultivating those powers of logical analysis and comparison which an arbitrator should possess has recently been displayed in the *Accountant's* report of a debate on the forms of balance-sheets. It is therefore not out of place to say a few words on the subject.

The science of bookkeeping knows only two books of account. These are the day-book, for *recording* all transactions; and the ledger, for *classifying* them. What is called the Italian system carried this out in *form* as well as essence. Only two books were used. Every transaction was recorded, as it occurred, in the journal or day-book; from which alone it found its way into the ledger. The modern cash-book, *as part of the system,* was unknown. The only cash account was in the ledger. Double entry was fully completed *within* the ledger, in which every debit had its credit. This was effected by setting up a *fictitious stock account,* a cash account, and a balance account, besides ordinary accounts. And every open account was *closed* at each period of balancing by carrying its balance into *balance account.*

In the more modern practice of the art, subdivision became convenient. Separate books are now used for cash, goods in, goods out, Bills, &c., all these being *parts* of the day-book. "Cash" is not carried into the ledger; the fictitious stock account is not set up; nor is a balance account opened. The balance-sheet is extracted from the open accounts, and the balances are carried *down.* If there be cash in hand, it is found that the ledger debits and credits are unequal in amount. This arises from the principle of double entry having been violated. But the accountant knows, even if he does not understand *why,* that the cash-book balance must be brought into the balance-sheet. The result is correct, though the form is wrong. But the cash-book has done double duty; as a day-book and a ledger; in other words it is a ledger account *outside the ledger.* It is, in fact, the personal account of the cashier. *That* is why its balance must be added to those taken

from the general ledger. And, notwithstanding the defect defined, modern practice is much the better of the two. The sometimes tedious work of closing all the accounts, at each period of balancing, only to record formal proof, in the ledger of the whole being equal to the sum in all its parts, is as useless labour as it would be to give with each *sum* performed the usual schoolboy's proof.

The habit of western nations to write from left to right, led them to enter property on the left-hand side, in accounts; for men naturally put down their assets first. Therefore it is that assets appear on the debit, or left-hand side, and liabilities on the credit, or right-hand side. This is so in every cash-book and ledger. There is no escape from it. Therefore the Italian balance account, or ledgerised totals of ledger balances, has assets on the left, and liabilities on the right-hand side. This led to balance-sheets being issued in that form, making the proprietor appear *Dr. to his assets, and Cr. by his liabilities*, through being drawn out *secundum artem*, and in ignorance of principles. Some accountants, whose superior knowledge cannot be doubted, still inadvertently allow their names to appear in balance-sheets issued in that absurd form.

It seems necessary to add that the correctness of form of a balance-sheet does not rest upon precedent, nor does a wrong form become right through being prescribed by Parliament. Either $a - b$ or $-a + b$ must be used. Both are correct. Which to adopt is a matter of common sense. If the balance-sheet *must* be rendered as a Dr. and Cr. account, then the Joint Stock Company's form, 1862, *is the only form fulfilling that requirement.* It is $-a + b$. *E.g.*:—

The English Timber Company, Limited.

Dr.	£ s.		Cr.	£ s.
To Shareholders* for Capital	10,000 0	By Stock of Timber		8,000 0
,, Sundry Creditors	5,000 0	,, Sundry Debtors		7,000 0

For, if rendered as $a - b$, it would appear as follows:—

Sundry persons, Shareholders and Creditors of the English Timber Company, Limited, in account with the Company.

Dr.	£ s.		Cr.	£ s.
To Stock of Timber.	8,000 0	By Share Capital ..		10,000 0
,, Sundry Debtors to the Company	7,000 0	,, Sundry Creditors of the Company		5,000 0

I leave this *reductio ad absurdum* to speak for itself. It completes my impeachment. You cannot make a Dr. and Cr. account in the form of "The World in account with the English Timber Company," for "The World" as used in the debate, includes persons and interests wholly separate and independent; and incapable of being united.

But a Dr. and Cr. account is of necessity the account of one, and of only one, viz. A (who renders it) with another, or with others, viz. B, or B, C, D, &c. (to whom A renders it). "A" may be a person, or a firm of co-partners, or a company of shareholders; but cannot be more than one body. There can be no departure from that in a Dr. and Cr. balance-sheet. It is an account. The introduction of real, in addition to personal assets, makes no difference. In fine, it is simply impossible to state a balance-sheet, as a Dr. and Cr. account, in any other form than as a body whose affairs it represents in account with all other persons concerned. "A in account with the World" is correct. But "The World in account with A"—well, I have already sufficiently characterised it.

I now venture to say, that if you will reperuse Mr. Guthrie's able paper, and the debate and subsequent letters thereon, in connection with the observations I have made, the force of my criticism will be perceived, and I am sure you will find it a not unprofitable study.

Mr. Guthrie is quite right in his contention that there is no logical obligation to issue a balance-sheet in the form of an account. Being simply a statement of assets and liabilities, it is much better to render it free from the limitations of Dr., Cr., To, and By; for only few laymen understand these terms in all their applications. But who can fail to understand the following:—

Balance-sheet of the English Timber Company, Limited, on December 31st, 1882.

Liabilities.	£ s.	Assets.	£ s.
On Capital Account to Shareholders ..	10,000 0	Timber in Stock...	8,000 0
On Trade Account to Creditors	5,000 0	Due by Debtors...	7,000 0
	£15,000 0		£15,000 0

Profit and Loss Account for 12 months ending Dec. 21st, 1882.

Charges and Losses.	£ s.	Profits.	£ s.
Salaries, &c.	500 0	From Sales	850 0
Loss on Wilson's Oak.	100 0		
Bad Debts	200 0		
Depreciation of Stock.	50 0		
	£850 0		£850 0

This, in the main, is the Joint Stock Company's form, but without Dr., Cr., To, and By. It fulfils the statute, and does not require a professional interpreter. For more than ten years I have imposed it wherever I have been able to do this as auditor. In the above form I not only give the day of balancing, but the period embraced in the profit and loss account. All ought to do this. How often is the former headed balance-sheet *for the year*; and the latter as if it were profit and loss of a single day.

When there is no statutory or other limitation, it is correct to render the balance-sheet as follows, viz.:—

Balance-Sheet of the English Timber Company, Limited, on December 31st, 1882.

Assets. | Liabilities.

But, when this is done, its accompanying profit and loss statement should be in the following form, viz.:—

Profits. | Charges.

For either the scientific form, $-a + b$, should be used throughout, or the popular form, $a - b$, should be used throughout. If intended only for accountants and mathematicians, the scientific form would of course be adopted; but, looking at the fact that the chief object of balance-sheets is for the information of shareholders and the public, there is much to be said in favour of preferring the popular form.

(*To be concluded in our next.*)

* Shareholders are not ordinary Creditors, but it is not necessary for my present purpose, to define their legal position, or to separate capital and liabilities, as is done in the full form.

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THE

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THE

Accountants' Students' Journal.

JULY 2, 1883.

INSTITUTE EXAMINATIONS.

In another column will be found some of the questions set in the Preliminary Examination of the Institute, and the whole of those set for the Intermediate and Final Examinations in June last. We have not inserted the whole of those set in the Preliminary Examination, as we consider they are subjects which are common to a general education, and therefore would not be of special benefit to the readers of our Journal. We have, however, chosen such of them as more particularly affect the *raison d'être* of an Accountant.

We are happy to say that we have made arrangements to give such model answers to the whole of these questions as we think would enable candidates successfully to pass the Board of Examiners. These model answers will be commenced in our next issue. In announcing our intention to adopt this course, we beg particularly to acknowledge with thanks the many kind offers of professional help we have received from all quarters.

LECTURES TO STUDENTS.

"Honour to whom honour is due." The candidates for future honours must, we feel assured, appreciate the devotion to their interest evinced by leading members of the profession who so spontaneously assist our subscribers by lectures on various topics affecting the practice of the profession. Our present number contains several lectures, each of which is worthy of careful study and consideration.

The lecture on "Book-keeping" (by Mr. Trevor, Manchester) is well worthy of careful study. The lecturer avoids dogmatism, and directs attention to various adaptations of the principles of double entry by various writers on the subject, leaving the student free to follow the course which he may prefer. We think, however, that he has misinterpreted A.E.'s description of a Journal. As we understand it the latter uses the name as the *generic* term applied to a series of books which together form the Journal, and his contention that the re-writing of entries should, where possible, be avoided, certainly supports that construction. The question as to whether Bills receivable should be treated as cash has given rise to many a discussion, the answer to which doubtless is influenced by the expediency in each particular case. In like manner the propriety of discount columns in the cash book must depend on the frequency of their occurrence. If they are the rule rather than the exception, economy of labour is effected by such a column, but if they are the exception rather than the rule, waste of space must be the result. Mr. Trevor gives some sound practical advice with regard to the simply mechanical work of book-keeping, and very useful hints as to the subdivisions of costs and production, and the preparation of departmental profit and loss accounts where the manufactures are varied.

In connection with joint stock company balance-sheets, he condemns the placing of capital before liabilities as being illogical—as it undoubtedly is—because capital is the balance of assets remaining after due provision has been made for the liabilities. It is a matter of regret that the lecturer was, by limit of time, prevented from extending his remarks to auditing.

The lecture of Mr. Geo. Banner is both instructive and interesting. Therein he shows us that far from being monotonous, no profession can be more varied and interesting. What greater pleasure can we hope for than the power, by

skill, intelligence and tact, of helping our clients to avoid rocks and shoals, and showing them how to derive the greatest amount of advantage from their labours with the minimum of risk?

BOOK-KEEPING.

Single-Entry—continued.

Cash-Book.

In single entry proper this book is limited to a single cash column on either side, unless an inner column be used for details. In such case the inner column is called the "non-effective" and the outer the "effective" or extention column. Moneys received are put on the left or debit side, moneys paid on the right or credit side, the trader being a debtor to the party paying him (in respect of the sum received), and a creditor of the person he pays (in respect of the sum paid). When a single entry banking account is kept, it is necessary, unless a separate cash-book is kept, to *post* the banking items in order to ascertain how the account stands, no distinction between house and bank being drawn by columns, as is now generally the case in double entry. The cash should be balanced periodically, weekly or monthly, and the balance be carried forward to begin the next period with.

We propose later on to publish several forms of single and double entry cash-book, in order that our readers may be able to examine the workings and respective advantages and disadvantages thereof.

We have said that the ledger is one of the principal books of account. This fact arises from it being utilised for the making of *direct* entries for the adjustment of the personal accounts by putting in such items as discounts, interest, allowances, &c. without which the accounts would be incorrect.

Hybrid Systems.

Single entry, pure and simple, is now comparatively rare. For instance, in a partnership one generally finds that some sort of "memorandum book" is kept for the purpose of recording the capital and drawings of the respective partners; such a book is in reality a (fractional) "nominal ledger."

Many traders who are anxious to watch and control their trading, keep most elaborate memoranda with regard thereto, such as daily, weekly, or monthly abstracts of purchases, sales, expenses, &c.; and, in fact, perform far more labour than would be involved in an accurate and methodical system of double entry, and yet when shown how to simplify and economise the work, either decline to adopt the improvements or fail in the working out thereof, because, however *practical* their experience may be, they have no *theory* to keep them right.

In single entry proper a trader's balance sheet is in reality only a statement of affairs, showing on the one side the liabilities, and on the other the assets, the difference being the capital or deficiency as the case may be.

This capital (or deficiency) he compares with what he started with, and thus ascertains how much he has gone to the good or the bad during the period, but unless he takes his drawings into account it affords no criterion as to his profit or loss, and he may have been cheated and robbed with impunity by an employé who is really up in book-keeping. Defalcations arising out of the facilities afforded by single-entry are, indeed, a source of considerable business to accountants; and very often the client has no suspicion until serious mischief has been done, and not always then, for we have before now seen a client greatly surprised and hardly able to believe that he has been systematically robbed even when the accountant's investigation has made the fact patent.

Conversion of Single into Double-Entry.

In a recent lecture Mr. Whinney expressed regret that the useful training which accountants' clerks obtained in the preparation of cash, trading, and deficieney accounts under former bankruptcy laws is now so rarely obtainable. The preparation of such accounts was in effect the conversion of single into double entry. The conversation is effected by a full and systematic analysis of cash-book and ledger accounts, purchases and sales, &c.

Cash-Book Analysis.

The first step is thoroughly to examine, verify, and agree the cash, both house and bank, starting with the original balances—that is, the amounts in house and at bank, and bringing down the correct balances, whether weekly, monthly, quarterly, or annually, depends of course on the circumstances. Because every item in the cash-book is accounted for, it is not a necessary sequence that the cash is correct. Amounts may have been suppressed or over-charged, and the items shown in the cash book may upon examination prove to differ greatly from those in the ledger. For instance, we remember a case where several thousand pounds had been embezzled within a comparatively short period, and the principal had no suspicion, *because the daily cash agreed with the bank pass-book*. The fraud was simple. A smaller sum than that really received was charged to cash and credited to the customer, and the difference afterwards made up by transfers or adjustments of a fictitious nature. *The bookkeeper sent out all invoices and accounts current*, in which he, of course, put the right amounts. The form of paper used, called "Analysis Paper," is ruled with, or without "date" or "particular" columns according to what is required, and as many money columns as are necessary for the various "nominal" accounts *plus* a "personal" column. The *Receipts* are taken first on one or more sheets, and the castings of the various columns, together with the money balances, at starting show the *total* to debit of cash. The "personal" column must of course agree with the amounts posted to credit in the ledger. In an ordinary merchant's business the columns required would be few, such as debtors, (personal) bills receivable, cash (ready money), sales, commission, &c.

JOINT-STOCK COMPANIES.

The Registrar's Certificate is satisfactory evidence that the requirements of the Act have been complied with. The company after its incorporation has also power to purchase and hold lands to itself and its successors, but if it is not formed for the acquisition of gain it cannot hold more than two acres of land, except by the permission of the Board of Trade, who may grant its license to hold any quantity of land, and on such conditions as they think fit to impose. Whatever may be the object for which the company is formed it may hold land in various quantities; if a trading company it may hold it without any special limit as to extent, but in a company not formed for the acquisition of gain, as we have seen, the quantity is not to exceed two acres. There is this peculiarity in connection with the holding of land by a company, viz., that the shares in it are considered personal property; although land held by a private individual is looked upon by the law as real property, and is guarded by the law with great jealousy, and descends to the heirs of the owner on his death and does not follow the rules of distribution attached to personal estate. The

only shares in any public company that are considered real property are the shares of the New River Company, and any share or part of a share in that prosperous undertaking would in case of intestacy descend to a man's heirs and not to his personal representatives. If a member of a company wishes for a copy of the memorandum and articles of association the company is bound to supply him with one on payment of one shilling, or such less sum as shall be named by the company for each copy. No company shall be registered by the name of one already in existence, neither by a name so similar as to be likely to cause a mistake in the indentity of the two companies.

In a case of that kind the company infringing the name of one already existing can be restrained from making use of such name by an injunction. The shares of a company are to be numbered, and every proprietor knows what is the number of each of his shares, and in case of transferring them does so by such number. The shares of a company being, as we have said, personal property, and devolving after the death of a shareholder to his personal representatives, it follows that such personal representatives can transfer his shares, although they themselves are not members of the company.

If a person *agrees* (which he usually does when he signs the form of application) to take a certain number of shares or any less number that may be allotted to him, he becomes in fact from that time a shareholder in the concern, and cannot refuse afterwards to take up the shares that have been allotted to him, nor refuse to pay the calls made upon such shares, nor to decline his responsibility with regard to them. If there has been fraud on the part of the promoters of the company, and if the prospectus has made false statements calculated to deceive, and he has taken shares on the faith of such statements, in any such case the court would come to his relief and nullify the contract. In order to obtain the interference of the court in the matter of that kind the evidence of fraud would have to be conclusive, because it would be a very convenient way for a man who has made a bad bargain to come into court and say he had taken up shares in a company, being influenced in so doing by representations that were fraudulent, and so endeavour to avoid the consequences of his act. To prevent that being done the evidence brought forward in support of his application must be clear and conclusive, and therefore the Act says, that every person "who has *agreed* to become a member of a company under this Act, "shall be considered to be a member." A book must be kept by every company containing a register of the names, addresses and occupations of the members, also the shares, and the number of such shares held by each member, together with the amount paid or agreed to be considerd as paid on each share. Also the date when each member of the company was entered on the register, and the date when he ceased to be a member. The penalty imposed upon the company for omitting to keep such a register is £5 for every day of such omission, and every director and manager who knowingly and wilfully neglects to keep such account is liable to the like penalty. A company with capital divided into shares under this Act has to make once at least every year, a list of all persons who were members of the company within a fortnight after the first general meeting held during the year, and the list must contain the names, addresses, and occupations of every member, and number of shares held by each, and must specify the amount of capital, and the total number of shares of the company; also the number of shares actually taken up at the date of the list, the amount of calls made up to date on each share; the amount of money in hand from such calls; the total amount of calls unpaid; the number of shares forfeited on account of non-compliance or otherwise with the requirements of the company; and the names, addresses, and occupations of the shareholders who have ceased to be such since the last meeting, and the number of shares held by each.

SHEFFIELD CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.

A meeting of articled and other clerks, in the service of Chartered Accountants, who are preparing for the final examination of the Institute of Chartered Accountants in England and Wales, was held at Wharncliffe Chambers, Bank-street, Sheffield, on Thursday, the 14th June, with T. G. Shuttleworth, Esq., F.C.A. (Tasker and Shuttleworth), in the chair; when it was unanimously resolved to form a Chartered Accountants' Students' Society.

The following were appointed a committee to draft rules and regulations to be submitted to a subsequent meeting:—E. Beardshaw (Messrs. John Watson and Sons), J. W. Best (Messrs. Tasker and Shuttleworth), L. C. Cropper (Messrs. Knox and Burbidge), W. B. Maxcy (Messrs. Edward S. Foster and Son), and John Wortley (Messrs. Barber Brothers and Wortley), with power to add to their number three members of the Sheffield Incorporated Society of Chartered Accountants, who are willing to become honorary members.

Mr. John W. Best was requested to act as Hon. Sec. until the election of Officers.

The Chairman, in congratulating those present on the formation of the Society, said that he had the honour of presiding at a meeting of accountants held in 1877, when a society of accountants was formed in Sheffield. That society was one of the four which were instrumental in obtaining the Charter which had so raised the status of the profession. It was with great pleasure that he consented to take the chair, at this the first meeting in connection with the Students' Society, which Society he had no doubt would be a success. He should be most happy to do anything that he could to further the interests of the Society.

The proceedings were brought to a close by a hearty vote of thanks to the Chairman.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY.

DUTIES OF TRUSTEES IN LIQUIDATIONS AND BANKRUPTCIES, AND OF LIQUIDATORS UNDER THE COMPANIES ACTS.

A paper on "Trustees and Liquidators: their Duties and Powers," was read to the members of the above Society, on Tuesday, the 12th December, by Mr. Walter N. Fisher, F.C.A. The President of the Society, Mr. Edward Carter, F.C.A., occupied the chair, and there were about 75 members present.

Mr. Fisher having congratulated the Society upon its promotion and the success it had in so short a time achieved, said: I will deal with the matter in the following order. As to trustees;—

1st.—Trustees under Composition.

2nd.—Trustees under Liquidation.

3rd.—Trustees under Bankruptcy.

To assist you in understanding the subject I must digress a little, and by way of illustration bring before you a meeting of creditors, and the appointment of a trustee.

Imagine, then, a meeting of creditors summoned under the section relating to liquidation by arrangement or composition with creditors, the necessary formalties as to filing a petition, the appointment of a receiver or manager restraining execution creditors where necessary, the issuing of notices to creditors summoning the meeting and the like, as

laid down in the Rules and Orders of the Bankruptcy Act, 1869, having been gone through (all of which have no relation to my present lecture), we come to the day on which the creditors may be considered to have assembled at the statutory meeting either in person or by proxy, at which said first meeting of creditors there must be at least a quorum of 3 or all the creditors if the number does not exceed 3; the chairman having by a majority present been elected, the debtor, under a recent decision, must be called into the room, and the statement of affairs about to be submitted to the meeting on his behalf having been handed to him, he must be asked if the statement of affairs produced in duplicate in accordance with Rule 92 of the Act of 1869 containing his signature is *his* statement, and whether, to the best of his knowledge and belief, it sets forth the whole of his liabilities and assets. The answer having been given in the affirmative, the meeting is asked if it is their wish for the debtor to remain in the room; if not—as is the general rule—a special resolution to that effect must be taken and filed with the other resolutions passed at the meeting. Next follows the handing in to the chairman the proofs—by which I meant affidavits duly sworn to before commissioners, as to the correctness of the amounts claimed; such affidavits may be made by one partner, when more than one, for self and partner, or by a clerk or representative of a creditor, in the latter case stating that it is within his own knowledge that the amount is due, and that he is authorised to make such proof. A proxy, however, can only be signed by the individual creditor; a member of a firm must sign "for self and partner," or if a joint stock company it is signed by the manager, or managing director, nnder the seal of the company, and by authority of the board of directors. The proofs having been handed in, then follows the reading over the names, amounts and considerations set forth in the proofs, and the passing or rejecting of them. This over, the general practice is for the receiver to read the debtor's statement of affairs, and to give such information as may be necessary in connection therewith. Then comes the report of the receiver, generally followed by a discussion as to the debtor's affairs, and the consideration of any offer of composition which may be made on the debtor's behalf. Now, assuming an offer of composition has been made, five courses are open to the creditors.

1. They may either resolve on accepting such offer of composition.
2. Or they may resolve to wind up the estate in liquidation.
3. Or they may resolve to wind up the estate in bankruptcy.
4. Or they may adjourn the meeting.
5. Or the meeting may be dissolved without any resolution being passed.

Having b.iefly led you up to this point, I ask you to follow me to the passing of a resolution accepting the debtor's offer of composition. To do this legally requires a majority in number and three-fourths in value of the creditors attending the meeting in person or by proxy to vote in its favour. This resolution being carried, it is then necessary for a 2nd meeting to be held not less than 7, or more than 14 days from the date of the 1st meeting, and at the same hour and place, unless otherwise determined upon by special resolution passed at the first meeting. No creditor can vote at either meeting until he has made the statutory declaration or proof of debt. The voting at an *adjourned* meeting is governed by a majority in number and amount; credftors whose debts are £10 and upwards being reckoned in the majority in number, creditors under £10 counting in amount only. The debtor must attend *both* meetings, unless prevented by sickness or other preventible cause, then a medical certificate is generally produced. Now we come to the trustee. The general practice is to appoint a trustee to receive and distribute the composition or composition bills, whose special duties are to examine the proofs and claims as filed or set forth in the debtor's statement of affairs; to prepare a composition list, giving number of creditors, names, addresses, occupations, amount of claims; to calculate amount of composition; to discover what bills or promissory notes are held, and to have them produced on payment of composition. Where the composition is payable in promissory notes, the trustee draws the said promissory notes and obtains the necessary signature of the debtor, and, where necessary, of his surety or sureties, unless, as sometimes happens, covering security is given by the surety. Then, with as little as possible, the trustee distributes the composition bills to the creditors entitled thereto, taking special care that all acceptances held by a creditor, bearing the debtor's signature, are given up to the trustee in exchange for the composition bills, unless they bear the name or signature of a third person; then each bill should be endorsed by the trustee in the following words:—

In the matter of
Composition of in the £, paid by me on this bill.
Dated this day of 188 Signed
Trustee.

Where a composition or dividend is claimed by executors, the probate should be always produced to the trustee and exhibited previously to the trustee paying over the amount claimable. It is further necessary on the appointment of trustee under a composition, to have, if possible, a resolution passed authorising the receiver or trustee to retain possession of the debtor's estate until the composition bills, and all costs and charges incidental to the proceedings, are placed in the hands of the trustee, or otherwise provided for.

I now pass to the duties of a trustee under liquidation. The creditors at a first meeting having resolved upon liquidation, pass the following resolutions:—

That the affairs of be liquidated by arrangement, and not in bankruptcy.

To carry this resolution the voting is the same as under a composition, three-fourths in value a majority in number whose debts are £10 and upwards, but under a resolution for liquidation no second meeting is necessary. The next resolution appoints the trustee, with the words generally added "at such remuneration as the committee of inspection shall from time to time determine." If no committee, then the remuneration must be allowed by the creditors in meeting assembled for that purpose. Next, a committee of inspection is appointed, which, as a rule, gives valuable assistance to a trustee, and the appointment of which is satisfactory to the general body of creditors. A committee cannot consist of more than 5, and the quorum should be always determined by the meeting.

The resolutions having been duly registered, the trustee receives his certificate of appointment under seal of the Court. His duties then commence, the liquidation commencing from the date of appointment of the trustee.

He will first call a meeting of the committee of inspection, and take the necessary resolutions as to realising the estate, whether by public auction, private treaty, or by tender; and as to the collection of book debts, and the appointment of banker, solicitor: and any other resolutions as to continuing the business or otherwise, as the necessity of each case may determine.

The trustee's powers under liquidation are in very many points the same as those of a trustee in bankruptcy, and where there is no committee of inspection a trustee may act on his own discretion. As to the special duties of a trustee under liquidation: assuming first that the receiver is not continued as trustee, then the latter should obtain the receiver's or manager's account, which a receiver is bound under Rule 103 to render. This done, and the trustee having made himself familiar with the acts of the receiver, he should forthwith proceed, under the resolution passed by

the committee, to realise the estate and to get in the outstanding property. He should examine the proofs and compare the same with the debtor's statement of affairs, and, where necessary, make diligent inquiry in ascertaining the *bona fides* of such proofs, and admit or reject as circumstances may dictate. Should it be found necessary to reject the proof of any creditor a memorandum of the trustee's objection and disallowance must be endorsed on the proof objected to and filed at the Court. Notice must be given to such creditor by post in the form given in the schedule provided in the Bankruptcy Act, 1869, which also orders, that where a creditor is resident in Europe the trustee shall be entitled to exclude from dividend any such claimant or creditor whose debts he so rejects, unless such creditor shall within fourteen days from the time of receiving such notice apply to the Court to admit his proof and proceed with the application thereof. Should a creditor whose proof a trustee excludes reside *out* of Europe, then such length of time shall be given as the Court may order. In regard to proofs of secured creditors, it is laid down in Rule 272, that unless such secured creditors shall have realised their security, they shall previously to being allowed to prove or vote state in their proofs the particulars of their security, and the value at which they assess same, and be deemed creditors for the balance only after deducting the assessed value of their security; it is also specially ruled that any secured creditor so proving shall be bound to pay over to the trustee the amount which his security shall produce beyond the amount of the assessed value, and further the trustee may at any time before the realisation of such security by the creditor, redeem the same upon payment of such assessed value; but, on the other hand, the creditor cannot increase his proof in the event of his security realising less than the value at which he may have previously assessed it. So much for proofs. Another important duty of a trustee under liquidation is the disclaiming of leases. Section 23 sets forth the nature of property disclaimable, and Section 24 the limitation of time allowed; both these sections I specially commend to your careful study. Again, it is equally important that a trustee should watch the interests of creditors in regard to that vexed question of fixtures, as to what belongs to the landlord and what to the estate. Legal decisions go to show that "after a trustee in a bankruptcy has executed a disclaimer of a lease vested in the bankrupt, he is not entitled, even though he be in possession of the leasehold premises, to remove the tenant's fixtures." The effect of the disclaimer is to give the landlord an absolute title to the fixtures as from the date of the order of adjudication. (The lecturer here quoted one or two recent decisions in support of this opinion.) I may note in passing that no person is entitled as against a trustee to withhold possession of any books of account of a debtor, or to claim a lien thereon. A trustee must always bear in mind that the Act provides that the property devisable amongst creditors shall exclude—

1. Property held by the debtor or bankrupt on trust for any other person.

2. The tools (if any) of the debtor's trade and the necessary wearing apparel and bedding of himself, wife and children to a value, inclusive of tools, apparel and bedding, not exceeding £20 in the whole.

We will next take preferential debts. The debts payable in priority to all others are:—

All parochial or other local rates due at the date of the petition, and having become due within twelve months before such petition; all assessed taxes, land, property, or income tax assessed up to the 5th day of April next before the date of the petition, not exceeding one year in all. All wages or salary of any clerk or servant in the employ of a debtor at the date of petition, not exceeding four months' wages or salary and not exceeding £50. All wages of a labourer or workman not exceeding two months. Other than these exceptions, all debts are payable *pari passu*.

Want of time prevents my speaking in detail as to the power and duties of a trustee relating to set-offs; claims in regard to apprenticeship; rents and law of distress; compromises; prosecutions for concealment of property: preferential or fraudulent payments; notice to postmasters as to delivery of letters to the trustee when necessary, pending realising or carrying on the business; the granting of an allowance to a debtor; the order of debtor's discharge; examination of the debtor or witnesses before the trustee or Court; the taxation of costs and charges: the obtaining allocaturs for such costs or charges in accordance with the resolution of creditors, as ordered by subsequent rules to the 1869 Act; the dealing with an estate under what is called the 28th section; and many other matters of equal interest and importance to the students of this society. I, however, hope the mention of these subjects will cause you to study them for yourselves as set forth in the rules and orders.

I must now ask you to assume that the estate of a liquidating debtor has been all realised, and the book debts collected. As to the latter, I usually issue a first application, giving the debtors seven or ten days to pay; to the defaulters I issue a second application, giving five days to pay: after then all outstanding accounts are placed in the hands of the solicitor to the estate. The assets, then, I repeat, having been collected, my practice, as well as that of I believe the majority of Chartered Accountants, is to place the amounts realised into a separate bank account, approved by the committee of inspection. I believe this to be important both in the interest of the trustees and creditors. As far as I am personally concerned, I would make it *compulsory* for every trustee to be compelled to open a separate bank account where the assets in any case amount to £50 or upwards. If this were done, and proxies were only applicable to the particular purpose for which they were specially authorised (not as now, for various meetings and purposes, which leads to so much mischief and abuse), and a trustee under liquidation were compelled periodically to forward a copy of his accounts either to the Comptroller in Bankruptcy or to the Registrar of the Local Courts, and to subject them to the same supervision and scrutiny as the accounts of a trustee in bankruptcy; and a fixed scale of remuneration or charges provided by percentage on the assets collected or divided or otherwise; then to my mind there would be little or no need for so much crying out against the present Bankruptcy Act, and we should hear less of the abuse of the present system. I am strongly of opinion that with the modifications just suggested, which would, I am sure, be heartily approved of and hailed with special satisfaction by the large majority, if not all, of the Chartered Accountants in England and Wales, the present Act would, to a very large extent, meet the requirements and powers requisite in the interests of the commercial community. I am pleased to say that the abominable system of touting for proxies indulged in by certain individuals is, as far as Chartered Accountants are concerned, fast dying out; the Council of the Institute of Chartered Accountants have (to my mind very properly) denounced the system of touting as being derogatory and unprofessional.

To return to our subject, a trustee having realised the debtor's estate, his next duty is, with as little delay as possible, to proceed to distribute the assets amongst the creditors entitled thereto; to do this, it is necessary to issue a notice in the *London Gazette* and local papers, asking for claims in the form set forth in the schedule. The general practice as to time is to give about 21 days' notice, and after the date fixed expires the trustee must examine all claims and proofs sent in or previously delivered or filed, at the same time making provision for any creditor whose name appears in the debtor's statement of affairs; a dividend list is then prepared. Here, as under a composition, care should be taken to record all acceptances held by creditors for endorsement, whether set forth in the claimant's proof or

the debtor's statement. Next, the trustee shall summon a meeting of the committee to pass his accounts, grant his remuneration, and resolve upon declaration of dividend. You will observe as to proving *before* receiving the dividend, and as to forwarding a receipt previous to the trustee's remitting the dividend, as provided for in Rule 133. The Act also provides for a trustee to administer the declaration to a creditor in the form prescribed in the proof of debt; this, however, to my knowledge, is seldom done by trustees. I have never yet adopted it, believing that, for the present, swearing affidavits belongs to a solicitor; and I am of opinion that Chartered Accountants should not in any way give cause to solicitors to say we are encroaching on their duties, just as we desire that solicitors should not do accountants' work. The final dividend having been declared, it only remains for the trustee to summon a meeting of creditors, giving about fourteen days' notice by advertisement in the *London Gazette* in the form prescribed, setting forth the objects of the meeting:—

1. For passing the accounts of the trustee.
2. Granting the trustee's release.
3. Closing the liquidation.
4. Resolving as to any other special business.

At the final meeting the trustee presents his estate account and summary of receipts and payments as previously examined and signed by the committee of inspection, with a brief report as to the winding-up, &c., of the estate, after which, if no valid objection is raised by the creditors, resolutions are usually passed adopting the trustee's accounts, granting his release as from a date then fixed, and closing the liquidation; these resolutions are drawn up by the solicitor to the estate, signed by the creditors present or their proxy, and subsequently filed at the Court, and on such filing and at the expiration of the date fixed for release, the estate is deemed to have been finally closed. It is specially ordered under rules published subsequent to the 1869 Act—that all bills and charges of attorneys, receivers, managers, accountants, auctioneers, brokers, and other persons *not* being trustees in matters of liquidation, shall be taxed by the proper officer of the Court, and no payment shall be allowed in respect of the remuneration of a trustee in liquidation, except on the allocatur of the taxing officer as being in accordance with the determination of the creditors thereon. Again, where a receiver or manager is continued as trustee, the remuneration of such trustee shall commence as from the date of his appointment as receiver or manager, and shall be assessed accordingly, and no other than the aforesaid remuneration shall be made to the trustee for his services as receiver or manager. An important point often occurs as to the Court allowing a receiver his charges for the preparation of the debtors' statement of affairs; it being held by some Courts that it is no part of a receiver's duty to prepare a debtor's statement as chargeable against the estate. I will not discuss the *pros* and *cons* of this point further than to urge the expediency of taking a resolution at the first meeting either fixing an amount to be allowed for such statement, or such sum as the Court will allow.

(The lecturer here proceeded briefly to refer to the duties of a trustee under bankruptcy, stating that this subject had been dealt with in a lecture previously delivered to the members of the Society by Mr. Chas. A. Harrison.

LIQUIDATORS.

The Companies Act, 1862, provides for the winding-up of joint stock companies by proceedings taken in the High Court of Justice, Chancery Division, under which proceedings liquidators are appointed. There are three methods of winding-up provided by the Act, and consequently three different kinds of liquidators.

1. Liquidators under a compulsory winding-up by the Court.
2. Liquidators under a voluntary winding-up.
3. Liquidators under a voluntary winding-up under the supervision of the Court.

This subject, "Liquidators," is of sufficient importance to occupy a separate lecture, the duties and powers being of such interest that I feel the short time at my disposal will prevent my doing anything like justice to the Act or its provisions. I can only touch upon a few of the *special* duties and powers of a liquidator, and hope my remarks may cause you to search and study for yourselves this, in my opinion, exceedingly interesting and responsible part of an accountant's profession. We will first take compulsory winding-up.

A liquidator under a compulsory winding-up is appointed by the Court under the order of the Judge, and may be so appointed with or without previous advertisement, and under such security and amount as the Judge directs. A liquidator under a compulsory winding-up order is called an Official Liquidator; in other words, an officer appointed by the Court. I must pass over the details necessary to the appointment—the petition and proceedings, and take—

1st. The date of commencement of the winding-up. It is of great importance to an official liquidator to have this thoroughly defined, as often very difficult and important points turn on the date of appointment, such as rates accruing due prior or subsequent to such date, rents, set-offs, royalties, and the like. This is very clearly defined in a valuable work by Mr. Eustace Smith, 2nd edition, in his summary of the Law of Companies, a work I recommend to the careful study of students and accountants.

The Companies Act states that the winding-up of a company by the Court commences at the time of the presentation of the petition. A voluntary winding-up commences from the time of the passing of the resolution authorising the winding-up; except when what is called a "special resolution," *i.e.*—a preliminary followed by a confirmatory resolution has been passed, in which case the winding-up dates from the passing of the confirmatory resolution. A voluntary winding-up under supervision dates from the passing of the resolution and not from the date of petition. In case of the appointment of a provisional liquidator, that is, an appointment under the Act on the application of creditors to protect the property for all parties pending the hearing before the Court of a winding-up order, or appointment of liquidator, a recent decision by the Master of the Rolls *in re Colonial Trust Corporation, ex parte Bradshaw*, states that where a winding-up petition had been presented on the 18th of October, 1878, and a provisional liquidator appointed on the 9th of October, 1878, and a resolution for the voluntary winding-up passed on the 18th of October, 1878, subsequently continued under supervision, that the right date for the commencement of the winding-up is the date when the provisional liquidator was appointed, viz., 9th of October, 1878: for it was then that the company ceased to carry on its business. Rule 56 provides that the duties and powers of a provisional liquidator, as far as the same are applicable and subject to the directions of the Judge in each case, shall be of a like nature to those of an official liquidator.

After an order for the winding-up of a company has been made, and duly drawn up by the solicitor, and advertised in the *London Gazette* (and generally also in the local papers), the security, if any, to be furnished by the liquidator, will next be completed, and the sanction or directions of the Court taken in regard to the assets or affairs of the company.

The Court determines the security to be given by an official liquidator, the amount being generally fixed having regard to the sums the liquidator may be likely to have in his hands at one time. One of the first duties of an official liquidator is the appointment of a solicitor. This is done on appplication to, and with the sanction of, the Court. Next, on the application of the official liquidator, a day is fixed by the chief clerk—generally giving a month or six weeks' notice—for the creditors to send settlements of their debts or claims to the liquidator, and copy of this notice must be sent to the creditors and also advertised in the *London Gazette* and the

local papers. A further day is fixed to consider any disputed claims. Care should be taken that the property is protected by insurance against fire; and where the nature of the company and its assets so demand—such as collieries and similar companies—special attention should be given to the requirements under the Employers' Liability Act. We now come to the contributories, by which I mean those who are in any way personally liable—such as shareholders—to contribute to the assets in the winding-up.

Contributories are divided into two classes—Present and Past. Past contributories being liable for a period of one year previous to the winding-up. It has, however, been held that past contributories are not liable to contribute until it appears to the Court that the existing members are unable to satisfy the contributions required from them, and are then not liable for debts contracted since they ceased to be members. In settling a list of contributories it is necessary for the official liquidator to prepare two lists—A and B, the A consisting of the present members, and the B of the past members. The A list should be settled as early as possible by applying to the Court for a day to be fixed to settle the list of contributories. Notices are ordered to be forwarded to the members concerned, and the certificate of the chief clerk duly obtained; this done, a day is fixed on which the call is made. Notices have to be forwarded demanding payment by a given period, and all assets that can be collected without the aid of the Court, or without expense, the liquidator has power to obtain; but where property has to be sold, heavy contracts entered into, debtors or calls compromised, actions deferred, the business of the company carried on, and sales of property effected, and other like matters as provided for in the Companies Act, the official liquidator must obtain the directions and leave of the Court. Sect. 156 provides for the inspection of books and papers in the possession of the company by creditors or contributories in conformity with an order of Court, but not otherwise, and Rule 56 orders that all exhibits, admissions, memoranda, and office copies of affidavits—examinations, depositions and certificates, with all other documents relating to the winding-up of any company—shall be filed by the official liquidator, *as far as may be* in one continuous file, kept by him, or otherwise as the Court may from time to time direct. Any contributory or creditor whose debt or claim has been allowed is entitled at all reasonable times to inspect such files, and, at his own expense, take copies or extracts therefrom. An official liquidator may resign his office or be removed by the Court on due cause shown. Sect. 95 describes many of the powers of an official liquidator with the sanction of the Court. He may bring or defend actions or other legal proceedings—civil or criminal—in the name and on behalf of the company. He may carry on the business of the company as far as may be necessary for the beneficial winding-up of the same. He may sell by public auction or private contract. He may execute in the name and on behalf of the company all deeds, receipts and other documents, and for that purpose, when necessary, use the company's seal. He may draw, accept, make or endorse any bill of exchange or promissory note in the name and on behalf of the company, and raise upon the security of the assets of the company from time to time any requisite sum or sums of money. He may take out, if necessary, in his official name, letters of administration to any deceased contributory, and further do and execute all such things as may be necessary for the winding-up of the affairs of the company and distributing its assets.

An official liquidator must keep proper books of account, showing the transactions under a winding-up, including a book specially kept to show the debits and credits of the company, with separate accounts for the contributories, in which every such contributory shall be credited with the amount paid in respect of any call.

Rule 18 provides for the renumeration of an official liquidator by salary or otherwise, which may be fixed at the time of appointment or at any time afterwards, as the judge may think fit. The accounts of an official liquidator must be prepared and passed by the Court pending the winding-up, and be made out in the form ordered in the schedule, and thus be left at the Judge's Chambers on—or as speedily as possible afterwards—the date directed by the order made on the appointment of the official liquidator, and all such accounts, with vouchers, must be verified in like manner as the accounts of a receiver in Chancery. As soon as the accounts of an official liquidator have been passed, they must be entered in two books, one to be kept by the chief clerk and the other by the solicitor to the liquidator; and the accounts, as entered in the two books, must be verified by affidavit in the form prescribed in the schedule, and the liquidator must satisfy the Judge by affidavit that his sureties are living, and that they are residing in great Britain and are solvent.

Rule 11 provides that an official liquidator shall open his trust account at the Bank of England, unless otherwise ordered, and an office copy of the order appointing the liquidator shall be lodged at the Bank. Pending the windind-up of a company such company is not dissolved, and all actions and other proceedings—unless otherwise ordered—must be commenced in the name of the company.

I now pass to the termination of the proceedings under a compulsory winding-up order.

An official liquidator must prepare a balance-sheet of his receipts and payments verified by affidavits; he then presents his final account, and on the Court certifying the balance (if any), and on payment of such balance in such manner as the Court may direct, the recognisances entered into by the offical liquidator and his securities are vacated; this done, a certificate is given by the chief clerk that the affairs of the company have been completely wound-up, and the Court thereupon makes an order that the company be dissolved from the date of such order, and the company is dissolved accordingly.

I have thus briefly described the mode of finally closing a winding-up order, and must leave you to follow the subject more in detail. You will find great assistance by a careful perusal of Rules 65, 66 and 67, and sections 111, 112, 113 and 155 of the Companies Act, 1862.

Now as to Liquidation under a Voluntary Winding-up. The Act of 1862 provides that any company registered under this Act, or the Joint Stock Companies Act, may be wound-up voluntarily—an application relating thereto having to be made to the same Court as that which orders a compulsory winding-up. Section 199 provides that no unregistered company may be wound-up either voluntarily or subject to the supervision of the Court, whilst section 129 states under what circumstances a company *may* be wound-up voluntary.

Under a voluntary winding-up the liquidator is styled liquidator, not *official* liquidator, and is appointed by the company in general meeting, notice thereof having been previously given in accordance with the articles of association. Upon the appointment of the liquidator it is held that the powers of the directors forthwith cease, except so far as the company in general meeting, or the Court, may sanction the continuance thereof. A liquidator under a voluntary winding-up possesses the same powers as an official liquidator, with this difference, that in a compulsory winding-up the official liquidator must, as I have already stated, act under the supervision and control of the Court, whilst a liquidator under a voluntary liquidation may act independendly of the Court, and in the exercise of the duties and powers given to a liquidator he should be actuated by the principles to be observed in a winding-up under a compulsory order. A liquidator under a voluntary liquidation may from time to time summon a general meeting of the company, when and where necessary for the purpose of obtaining the support or sanction of the company by special or extraordinary resolutions, or for any other purpose he may think fit; and *shall*, in the event of the

liquidation continuing for more than one year, summon a meeting of the Company at the end of the first year and each succeeding year during the winding-up, or so soon thereafter as may be convenient, and shall lay before the company an account showing his acts and dealings and the manner in which the winding-up has been conducted during the previous year.

The liquidator's remuneration is generally settled at the meeting at the time of his appointment, as provided in Sect. 133. The mode of closing a voluntary liquidation is fully set forth in Sections 142 and 143. The liquidator has to prepare an account showing the manner in which the liquidation has been conducted, and the property of the company disposed of. Next a general meeting must be called to consider the accounts, and to hear any explanation thereon. Such meeting must be called by advertisement, giving the time, place, and object of the meeting, and one month's notice at least must be given previous to the meeting by advertisement in the *London Gazette*. The liquidator must also make a return to the Registrar of joint stock conpanies of such meeting having been held, and at the expiration of three months from the date of the registration of such return, the company is deemed to be dissolved. If the liquidator neglects to make such return, he is liable to a penalty not exceeding £5 for every day during which such fault continues.

I now come to liquidators in a winding-up order under the supervision of the Court.

This is provided for in Sect. 151, authorising (1) a voluntary winding-up. (2) The supervision of the Court over such voluntary winding-up.

Many powers are given to the Court under a supervision order, and not allowable under a simple voluntary winding-up; to my mind a liquidation under supervision is a great protection to a liquidator, enabling him in any difficult or important matter to seek the protection and direction of the Court. In all liquidations it is specially necessary to take special notice of mortgages or other securities existing on the properties, and to take care to have the consent of the mortgagees, should it be found necessary to continue to carry on the business. I have recently taken the opinion of eminent council in a similar case, and he advises "that if a liquidator contiues "to work the affairs of a company without the consent of the "mortgagees he will do so at his own risk"—that is to say, the cost of carrying on the business will not be payable out of the mortgaged property in priority to the mortgagee's claims: and counsel further advises, "that under a voluntary winding-"up under supervision, if an application is made to the Court "for leave to carry on the business, and even if such leave "were granted, this would not protect the liquidator unless "the mortgagees consented." This point has recently been decided in the case of the *Regent's Canal Iron Works*. It is well, where a liquidator finds mortgaged property and is in doubt as to the sufficiency of assets, to endeavour to act as receiver for the mortgagee as well as liquidator to the company.

The remarks I have been thus able to make surely go to prove how responsible the office of a liquidator is, and how thoroughly any one holding, or likely to hold, such office, should be versed in its duties and powers, especially when we so frequently find all or nearly all the assets of a liquidating company, either held on mortgage or in some way or other held by secured creditors. As to the general powers of a liquidator under supervision —including the summoning of annual or other meetings of the company during liquidation and the closing and final winding-up, you may take it briefly, that the liquidator can exercise all the powers conferred under a voluntary winding-up without the express sanction of the Court. At the final winding-up section 155 makes provision for the Court to direct how the books and papers shall be disposed of.

Mr. Fisher then concluded his lecture with a few words of practical advice to the students.

On the motion of Mr. E. J. Gamgee, seconded by Mr. P. Wright, a vote of thanks was passed to the lecturer, and the meeting concluded with a similar vote to the chairman, proposed by Mr. Parry Smith, and seconded by Mr. P. P. Davenport.

LIVERPOOL CHARTERED ACCOUNTANTS' STUDENTS' ASSOCIATION.

(Continued from No. 2, page 40.)

I hope I have proved to you that it is teaching, and not compulsion, which is needed. The latter already exists in the inexorable law which I have endeavoured to reveal to you. The Manchester Society cannot alter it. They went too far. Ascending misty heights, among the clouds, they lost their way; and must now, perforce, march down the hill again.

For who is to compel the adoption of the one, and the rejection of other, when both are right? Who would punish for using the presbribed form, if, being right in itself, it contained all the same facts, as fully, truly, clearly, and intelligibly stated as they would have been given in the adopted form? It is beyond the province of Government to go so far. The 1862 Act does not impose the form it gives. It only says it shall be used where shareholders do not otherwise decide in their special articles.

A better course is open to us: let the Institute, at its annual meeting, resolve on *recommendations*, both on that and on numerous other matters of practice. The voice of the profession, speaking in that way, could scarcely fail to have an almost imperial controlling influence, not on the profession alone, bnt through the whole community. That would be dignified action. Compulsion is the resource of weakness. It should be abhorrent to ns. Truth, when she emerges from the well, at the bottom of which you and I have now been seeking her, will stand erect, firm, and free. You cannot bind her in chains. At the slightest strain these would snap, and fall asunder.

Here I may fitly point out that a code of technical terms is much needed. The Institute should supply it. Receipts, payments, profit and loss, Dr. to, Cr. by, posting, and balancing have a technical and definite meaning; but revenue, income, expenditvre, and even debts and debtors are used loosely and capriciously, the two last-named terms often taking the place of credits and creditors.

I will now add examples of mental confusion of things, which in themselves are incapable of being mixed.

One of the Manchester accountants said, in effect, that assets in the cash-book cease to be assets when the cash debits are posted in the ledger; *as if the crediting of the persons from whom the cash was received were a process of paying cash away.*

Another accountant wrote that the ledger *is not a book of account*; and acknowledging his incompetence to speak thereon, gave the authority of a lawyer for his incredible assertion. Surely accountants ought to know best what are books of account. The lawyer meant that the ledger is not a book of account *receivable in evidence.*

Another practitioner wrote, "How can shareholders be Dr. for their subscribed capital?" and, that "the statement of assets and liabilities *may or may not* be considered a complete balance-sheet." What does he mean?

Another speaker said he had felt that the Institute's much criticised statement of accounts ought to have been headed receipts and payments, instead of receipts and general elpenditure. This surprised me much, because it clearly appears teat the statement he referred to includes liabilities as well as payments.

It is remarkable that the Institute's forms are those on which Audit question No. 8 (*Accountant*, Sept. 2nd, 1882), asks, "Are they correctly shown as to name and as to form?" Thereby the Examiner invited the Examinees either to approve of them or to condemn them. I cannot imagine it was the former. The Institute's accounts ought to be models of perfection; and its Examiners in accounts free from peculiar notions. Bookkeeping is an exact science. Students ought to be in no danger of failing through not being mounted on the hobby by which an Examiner has been accustomed to ride.

If, then, accountants of the highest rank in the practical work of the profession have shown themselves so much at sea on the science of accounts, I have established my position. For, if arbitration be contemplated as a branch of your future career, in accordance with the Institute's scheme, it is incumbent on you to train yourself in reasoning, and in tracing effects back to causes, quite as much as in acquiring proficiency in office practice. And, first of all master the very simple and easily grasped principles of the art which is the foundation of our profession, whether this knowledge be sought of you in the Institute's examinations or not.

For accountants, to be competent to arbitrate on Accounts, must at the least be able, in what belongs to their own business, to see things separately which are essentially different.

And do not forget that the office of arbitrator is one of high dignity and responsibility; for he is generally *the final judge both of law and fact.* As to cases referred from courts of law (in which his functions are often limited) lawyers suggest their being decided on the same principles as have actuated the tribunal for which the arbitrator is substituted. Lawyers, of course, are likely to act so. But laymen are not likely of themselves to so act, both from ignorance of those principles, and from indisposition to surrender their usual modes of thought, and resulting convictions, to the slavish shackles of a court's traditions which they are unable to understand. They will be likely to cut the knot with a knife of common sense, rather than unloose it by a process which is to them inexplicable; and, on the whole, with more substantial justice to the suitors.

When purely legal rights are referred by courts, it is a different matter. But these, of course, must always go to lawyers.

Moral considerations naturally prevail with laymen, and legal and technical ones with lawyers. The former try to put themselves in the suitor's place. The latter *must* give weight to strict law, even where it is manifestly not strict right, *e.g.* On seeing the draft of a deed, on which deed dispute had arisen, the arbitrator pronounced the deed wrong, and decided according to the intended deed. Baron Parke, said thereon, that he, as judge, could not have altered the construction of the deed, although the deed was drawn up in mistake. He was also of opinion that the arbitrator had power to reform it, under his equitable authority.

I recommend you all to keep that case in mind. The ends of justice would often be better served by references to laymen, *because lawyers are bound by precedent. They must act in accordance with their knowledge of law, even where, as men of the world, they see that this defeats justice.*

I regard the unfortunate difference between the Liverpool Lyceum and Liverpool Library as a case within that category. If the two authorities had seen their way to let the matter be decided between them, not on the peculiar legal uncertainty into which, when all went smoothly, matters had been unconsciously allowed to drift, but on substantial merits, by a thorough competent layman, I cannot doubt that a compromise would have been arrived at which would have satisfied the parties as well as the justice of the case; and at small cost. But £1,000 or from that to £1,600, has been absolutely thrown away in law costs; *and the whole case is to be gone into again!*

"Stick to rights" is a frequent and forcible, but not always *wise* member of a directory, and nearly always has that support at his back which, I am bound to say, the responsible lawyer cannot but give him.

Those of you who have access to it, read the interesting article on the late Sir George Jessel, in *Saturday Review*, March 24th, 1883, p. 360. Even he, with all his preference of substantial justice to secondary considerations, was obliged, while he was a judge of first instance, to follow the decisions of co-ordinate and superior tribunals.

If I have failed in this effort at exposition of a much misunderstood matter, it is not due to any inherent weakness in the subject itself, but to my deficiency in those qualifications of clearness of vision and clearness of expression which I am urging you to cultivate. Avoid, then, my example. I have, however, tried to make the matter plain. It has scarcely been easy work to arrange and condense the argument, and it is only because I have been unable to find, in any of the authorities on bookkeeping, that anyone else has attempted the same task, that I have been so bold as to engage in it. But I am sensible of the imperfection of its performance, and that I must therefore apologise for not having left this also to the chance of its being undertaken by some one else possessing greater ability to address you thereon.

A discussion was afterwards carried on, in which Messrs. W. H. Alexander, George Banner, F.C.A., A. W. Chalmers, F.C.A., D. L. Chalmers, Stanley A. Latham, and Theo. S. Sheard took part.

Upon the motion of Mr. B. Howorth, seconded by Mr. Wm. Pagen, a vote of thanks was unanimously accorded to Mr. Astrup Cariss for his lecture.

A vote of thanks to the chairman for presiding closed the meeting.

BANKRUPTCY.

The third ordinary meeting of the above Association was held on Wednesday, the 28th March, 1883, at the Law Association Rooms, Cook Street. Mr. Edward Mounsey, F.C.A. (a vice-president), occupied the chair, and there was a large attendance.

The business of the evening was to hear the lecture by Mr. Thomas H. Sheen, F.C.A., on "Bankruptcy."

The Chairman, in a few words, explained that Mr. Henry Bolland was unable to read his promised paper on bankruptcy, but that Mr. Sheen had kindly consented to read a paper upon the same subject.

Mr. Sheen, who was loudly applauded, said—I cannot, in my address to you this evening, enter into the history of bankruptcy law from its origin; indeed it would be almost impossible for me to do so in the limited time allotted to me. I believe I am correct in saying that it had its origin in the days of Moses, and it would be almost impossible to follow it from its inception to the present time. I propose rather to deal with the subject during the past half century or so, and I find that in 1831 a system was abolished under which creditors professedly had absolute control of the administration of their debtors' estate, but this in reality was a profession only. A crude and expensive administration existed in each town under the august supervision of officials, commissioners who were barristers and attorneys, the fiats in bankruptcy being issued by the Lord Chancellor, at the instance of the petitioning creditor's solicitor, who nominated the commissioners he wished in the case. These worthies, one barrister and a couple of attorneys, held their sittings at the favourite hostelry of the town, and their, according to the fatness or leanness of the estate, did the sittings continue for what was termed the equitable administration of the estate. This corrupt system continued for years, until Lord Brougham's versatile genius fixed upon it for one of his celebrated legal reforms, and he introduced a bill to abolish this vicious system, but only to replace it by a new system of officialism, under which courts

of bankruptcy were established in London, Liverpool, Manchester, Leeds, Birmingham, Bristol, Exeter, and Newcastle, with some 20 commissioners as judges, an equal number of registrars, about 40 official assignees, half as many messengers or high bailiffs, and an equal number of ushers. The London commissioners received £2,000 and the registrars £1,000 per annum each, while the official assignees—worthy men indeed—were paid by fees which have been known to reach £5,000 per annum, and never less than £1,000. The poor messenger has been known to net £3,000 a year ; and the poor usher, whose duties no man could understand, but upon whom, in some cases, devolved the whole of the work, was let off in Birmingham with something over £1,000 per annum. The philanthropist Brougham amply used the opportunity afforded him of making provision for his numerous friends, and it is historical that from the salary of one gentleman—a nephew, I believe—who became a registrar, he received some portion in discharge of an old obligation. Various minor changes took place in this Act, but in 1849 it was superseded by the introduction of a Bankruptcy Law Consolidation Act. Officialism under this Act was continued. In Liverpool we had four official assignees—a very worthy and gentlemanly class of individuals they were; official assignees 'tis true in name, and as such received enormous stipends, but who left the duties of their office to their respective and respected managing clerks. Under this Act these worthies received commission on the discharge of their duties, and I aver that the official assignee re Barton, Irlam, and Higginson's estate derived about £2,000 per annum from this one case alone for a number of years. (N.B.—I don't think this case, under officialism, is closed yet.) Another worthy gentleman, a Mr. Gaskell, who received his appointment through being local correspondent of the *Times*, for many years received £1,500 per annum, but being in fear of arrest for debt had to absent himself the greater portion of his time. Another luckless messenger, a Mr. Day, was a barrister's clerk, and his emoluments were about £1,000 per annum; he discharged his onerous duties through his clerk. It would be idle and needless for me to go through the long string of similar cases, each in itself proving abundantly the abuses of officialism, and demonstrating that these sinecures were created for the weak, the idle, and the ne'er-do-wells of aristocratic dependents. I mention the foregoing facts, not out of disrespect to those who have gone, but by way of preface to what I shall have to say with reference to the contemplated resuscitation of officialism in the Bill now before Parliament. The 1849 Act remained in force with but slight alteration until Lord Westbury came to the front with it in 1861. Shortly before that Act came into operation, the Lord Chancellor, of his own motion, appointed two commissioners to investigate the accounts of the different officers of the district bankruptcy courts, and the result was that in one or two cases certain registrars and official assignees had to resign, and the others who escaped that fate were surcharged, and had to disgorge large sums. Only in one instance was the order to disgorge resisted, and that was in Liverpool, where an official assignee, although mulcted like the rest, challenged the Lord Chancellor to enforce his order, which was found impossible, as the whole of the investigation was *ultra vires*. Notwithstanding this, the commissioners were handsomely remunerated out of the public funds. So much for the regularity and honesty of administration by highly paid officials. Lord Westbury introduced an entirely new system, except only that he retained the officials of previous Acts until in the course of nature they were removed. It is here worthy of remark that in 1869, when the present Act came into operation, Liverpool and its then district had been so reduced to one commissioner, one registrar, and one usher, and ample they were to discharge the duties. So much for Lord Brougham's creative genius. The 1861 Act abolished imprisonment for debt; and although great men have described it as the abolition of one of the "relics of barbarism," there are many who admit it was one of the best and surest means of making a dishonest man pay his debts. Under this Act deeds of arrangement were introduced, but, unfortunately, those safeguards against dishonesty, which are so necessary in any bankruptcy system, were wanting, consequently what might otherwise have been a beneficial measure became an abuse. Lord Westbury's Act lasted until 1869, and, like all its predecessors, with officialism was replete and garnished with the most glaring robbery; it is a matter of notoriety that a near relative of his lordship disposed of offices under this Act for large sums of money for his personal benefit. The Act of 1869 professed to heal all the defects of bankruptcy legislation of bygone years, and was to afford to the trading community the true panacea for all ills. Its chief and most important provision was the entire abolition of the vicious and corrupt system of officialism, which had shamed the administration for so many years; this was purchased at enormous cost, and needless to say, at the present moment, many of those who enjoyed large salaries and stipends under the former system for doing little or nothing are now receiving annual pensions of equal value. At the same time, one of the fundamental principles of the Act was ushered in whereby the creditors were to be the judges of their own interest, and they were to decide as to the best means of realizing the assets, and by whom and under what circumstances they were to be realized, and whether the debtor should be again allowed to rank with the trading community. There can be no doubt that the Act touched the vital principle of all bankruptcy legislation; and if it had been supported and hemmed in with rules and regulations sufficiently stringent, most of the abuses which twelve years' experience has exposed would have been avoided. It is a matter of fact that the provisions for the punishment of fraudulent debtors are utterly inadequate; and it cannot be denied that in very many cases trustees who, in the discharge of their duties, have prosecuted fruudulent debtors for offences, have been openly abused by counsel and others for so doing, and that by reason of the weakness of those sections many who ought to be prosecuted escape the punishment they merit. Again, there is not the slighest reference in the Act to the punishment of traders who keep no proper record in books of their business transactions. Surely this is the very basis from which to arrive at the honesty of a man's dealings; therefore it ought to be a penal clause. Again, one of the deficiencies in the present Act is the necessity for stringent clauses to prevent debtors making false entries in their statement of accounts. In many instances they return parties as creditors for large sums who are not creditors at all, or at any rate for much smaller amounts. These parties often control meetings, to the detriment of the honest community. The severest penalties should be applied to any persons who swear a false affidavit; and, without desiring to be personal, it could be conveniently applied to some lawyers and accountants. Another important deficiency in the present system is the absence of any penal clauses to regulate an abuse which very often creeps into bankruptcy arrangements, whereby debtor and creditor (very often a large one) enter into a secret arrangement unknown to the other creditors, and in direct violation of their interests, sometimes under promise to assist him through his difficulties by a composition less than the real value of the estate, and at other times with his discharge when no dividend at all is paid. The stringency of a section such as this should not only apply to debtor and creditor, but also to all parties conniving thereto or thereat. All trustees should give security in bankruptcy as in Chancery. It is essential that trustees' accounts should be audited at least once in every three months, and that by a duly-appointed officer of the Court in which the bankruptcy or liquidation takes place; and for this purpose an audit department should be attached to every Court, such as Liverpool, Leeds, &c., and towns of the like importance; in smaller districts having bankruptcy

jurisdiction the registrar could very conveniently discharge the duties. The department of the Comptroller in Bankruptcy in London is far too cumbersome and costly. The subject of the debtor's discharge is one of the utmost importance, and certainly should be made far less easy to obtain than at present. It is generally felt that it would tend to improve the commercial morality of the country if no man was allowed to obtain a discharge unless he paid an actual dividend of 5s. in the pound, and it should only then be procurable by sanction of the Court after a full report by the trustee as to the circumstances of the failure, and such report to be filed seven days before the debtor applies for his order of discharge, and that the same be open and accessible to every creditor, who may be heard in opposition if he think fit. The Court shall have absolute power to refuse the appointment of any trustee if it is thought expedient. I have, I think, dealt with the past acts of bankruptcy under officialism, and I have endeavoured to point out some of the most glaring defects in the present system. It can hardly be expected that I should deal with them all in the course of a short address. Let us now proceed to a consideration, which must be brief, of the proposed Act of 1883. There is the old adage "Let the cobbler stick to his last," and this may very fairly be applied to the Board of Trade, its head, and those officials it is proposed to draft into the bankruptcy administration under the new Act. The measure is practically in its infancy, but the searching criticism it was subjected to on its second reading from both sides of the House clearly denotes that the business men have not yet forgotten the abuse of officialism in the past, and that, unless more tangible and reasonable necessity for a return to officialism is presented by Mr. Chamberlain, his scheme cannot be supported. It is abundantly clear that the cardinal point of the measure is officialism, and we ask why? The chief ground alleged by the President of the Board of Trade is that at the present time about four millions of money are in the hands of trustees and unaccounted for. He has not stated the source of his information or the method of his calculation; but what seems to be desired is that for the future any moneys which creditors do not require had better go into the national exchequer, as it did previously. Again, it will be remembered by all who have had experience under the bankruptcy laws previous to that of 1869, how difficult it was to get any dividend however small. Under the proposed new system there is every facility for getting an estate into Court, but very little for getting the assets out. Again, for twelve years the principles affecting the law of bankruptcy have been raised time after time, in Court after Court, at an enormous cost to the public, and now I should think it would rather commend itself to the public intelligence to remedy the known and admitted defects of the present law than to rush blindly into a new order of things, which for some years must be a debatable ground, and highly remunerative to the legal profession. Frankly, I admit the proposed legislation remedy some of the defects that exist; yet I submit the course of bankruptcy legislation, having regard to those deficiencies which I have pointed out in the past, and the short comings of the present, is for the future to amend the existing law by lopping off its useless branches by remedial application to the deficiencies developed by experience, and to utilise the knowledge gained by countless law-suits and almost in calculable expense. I do not wish to enlarge upon the position which our profession occupies on this important subject, but I do say that since the establishment of a recognised charter of the profession, whose members are amenable for their integrity to a governing body, whereby those individuals, professedly accountants, who have to some extent brought discredit upon a profession second to none in importance, have been weeded out, the present system, amended in some important sections on the lines I have named, would prove more beneficial to the commercial world at large, and infinitely preferable to a return to the system of officialism, with its attendant nepotism and plentiful crop of abuses.

A discussion followed, in which the various speakers agreed with Mr Sheen as to the inadvisability of returning to the system of officialism which for long characterised the administration of the bankruptcy laws.

A unanimous vote of thanks was passed to Mr. Sheen for his paper, and to the chairman for presiding.

CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

The second meeting of this society was held at the offices of the Institute of Chartered Accountants, 3, Copthall Buildings, E.C. with Mr. Henry Bishop, F,C.A. in the chair, when Mr. Welton, F.C.A., delivered the following lecture:—

THE LIQUIDATION OF ESTATES OTHERWISE THAN IN BANKRUPTCY.

Mr. Welton on rising said, Gentlemen, when I was first consulted as to my willingness to become an official of this association, one of my first questions was as to the duties; and I was told, that sooner or later I should have to give a lecture. I replied that I never give but one lecture, and that in my estimation was a failure; and I could hardly hope to meet with better success next time. Suffice it to say, I put the danger aside as remote, and was consoling myself with the hope that a year or so might pass before my turn came. Never was rash confidence falsified more completely. About a month has elapsed since I was told that it was incumbent on the Vice-President to deliver the first lecture, and I am here to-night to give the best entertainment and information I am able.

One fact in my experience leads me to think that if not successful myself, I may render the society none the less a signal service. I may in fact set free the tongues and heighten the ambition of the many able and thoughtful men who, without such an awful example, might remain dumb. Such a service was rendered to me nearly thirty years since, by a gentleman connected with the Statistical Society, whose paper on the results of the census of 1851 made me feel that I might easily do better than that, and led me into a course of studies which have hardly yet been finally thrown aside, notwithstanding the lack of time which I increasingly feel.

The amount of liquidations of Commercial and other Estates should be regarded in relation to the total of the national transactions, and it should be borne in mind that those who receive credit necessarily vary from the highest standards of wealth and responsibility to the lowest position consistent with obtaining some small amount of goods on trust. I think the strong language used occasionally as to the frequency of failures is hardly warranted. Apart from the wage of labour, and apart from dealing in securities of all kinds and in land, the handling of the products of industry which form the subject of our home and foreign trade involves an aggregate sum of more than one thousand, probably nearer two thousand millions of pounds sterling annually, with respect to which credit is given. Very likely as much as five hundred millions is always owing from man to man on bills of exchange and open balances in connection with trade, as opposed to transactions which are unconnected with the production, manufacture, and distribution of goods.

Now, I believe, it will be found that of the whole class who receive a certain share of credit, something like three per cent. fail annually; but I certainly do not suppose that in trades conducted with reasonable care and prudence the losses by bad debts need reach much more than from one-half to one per cent. on the turn-over. The larger houses must have a higher degree of stability than those small ones, some of which are always on the verge of ruin.

One of the facts which accountants are bound to discover is that amongst those who fail a surprising number have "gone beyond their last," have involved their affairs in complications such as no sane individual would think of, in fact they have made it such hard work to unwind the tangled skein, that often enough a large part of such assets as are left must be absorbed in the process.

When credit fails and cash runs short, persons in trade do not always suspend payment. Not unfrequently their creditors come to the conclusion that as by supplying goods "one parcel under another," as the phrase goes, a constant vent for the articles they deal in is kept open, and as the profit derived from such transactions is in the aggregate of some importance, they should delay as long as possible the process of liquidation.

At last comes the crash. Some of the creditors take proceedings, the rest of course are alarmed, and the debtor has to call them together. I am not referring to common swindlers who abscond, or otherwise bring their career to a sudden close, but to the more ordinary cases, where there may be much that is very worthy of blame, but actual crime is rare.

The cases which come before me for treatment have hardly ever been those of retail traders, but I have in the capacity of trustee for larger concerns often had to do with such liquidations, and I cannot say that they are so invariably ill managed as certain writers suppose. My experience has been in such cases as the following, namely—

(1.) Where there have been excessive outlays on buildings and plant, followed by protracted bad trade.

(2.) Where large advances including sometimes open credits have been granted to houses abroad for the sake of extending transactions, and some of those houses have failed.

(3.) Where speculations in cotton, corn, tallow, coffee, &c., have been disastrous.

(4.) Where undertakings outside the regular business of the firm, or stock exchange speculations, have absorbed its floating capital.

(5.) Where undertakings based on credit have been commenced by contractors, and a change in the condition of the money market has prevented their completion.

(6.) Where frauds by partners or others have suddenly left a firm insolvent.

(7.) Where withdrawals of capital caused by deaths or retirements have enfeebled the resources of a firm, or converted what was capital into indebtedness.

(8.) Where, either by unduly high living or the gradual declension of a branch of trade, the resources of a firm have been gradually sapped, and suspension at last becomes imperative.

Liquidation otherwise than in bankruptcy is in such cases usually preferred, both by debtor and creditors. In fact, I think I may say, both prefer composition arrangements to any others. Compositions are not always so very profitable to the insolvent as is currently assumed. No man is so likely to over-value a business, and its assets generally, as the proprietor of that business. He thinks he has a valuable goodwill, when an outsider might fail to see it. He therefore gets his relatives and friends to assist him, and arranges a composition on such terms, that not unfrequently he finds in the long-run he had better have let things take their course.

In the case of a composition, the accountant engaged may have little to do beyond preparing a statement; and I therefore have to confine myself to-night almost entirely to the other class of liquidations, where the estate is worked out and realised without sale to the debtor.

The indignation with which many respectable men speak of liquidations has its source, I think, in particular scandals, and still more in the impossibility many creditors experience of really watching such cases, and learning the actual facts. The one fact which comes home to them is the non-receipt of their money; and the one thing they would like is some self-acting system which would make dividends larger and would repress fraud.

I think it may be convenient if, turning to the work of the evening, in the first instance I touch upon the duties undertaken by an accountant in charge of a liquidation; referring next to the convenience or otherwise of the existing mode, and of the method which preceded it, namely that of regulating liquidations of this nature by Inspectorship Deeds; and lastly, saying a word as to the apparent tendency of legislative proposals now before Parliament.

The work to be done during the period of at least one to two months which usually separates the presentation of a debtor's petition and the registration of resolutions for liquidation by arrangement is multifarious and full of responsibility. It is quite true that the law requires a receiver to do as little as possible, and even where there is a continuing business, and the receiver is therefore appointed manager as well, all unnecessary action on his part is discouraged. I am not here to complain of the injustice which this system may entail. I recognise that time is often required for the purpose of duly ascertaining the wishes of the majority of the creditors, and it may even happen that a good deal of time must be consumed in making up the debtor's books, before certainty can be attained as to who the creditors are. The more trying the position of one who must act without having a regular warrant for it, the greater credit attends a proper performance of all the work which in the interest of the creditors *must* be done.

Although it may seem very shocking to say a good word for the debtor, I am compelled to acknowledge that in many respects the liquidator is liable to fall into error unless either the debtor or one in whom he had been accustomed to repose confidence can be readily consulted. The information which the liquidator must laboriously acquire is theirs already; they can tell what according to their light is necessary in order to minimise or prevent loss, and the liquidator must weigh carefully all their representations, and take responsibility either of accepting, or of disregarding, them. Very often there is a process of mutual education going on, for the debtors are as ignorant of the bearing of their changed position upon the daily necessities of their business, as the liquidator can be of the special exigencies of that business.

A liquidator who has the advantage of acquiring experience in a good office before being obliged to act on his sole responsibility, soon picks up a notion as to what creditors may be and ought to be consulted whenever possible, and what debtors deserve a share of confidence. For not every creditor, how influential soever in weight of cash, is a good guide. I knew a case where two men who had suspended payment were asked by their largest creditor to do an improper act (or allow it to be done), and because they would not consent, their discharge remains ungranted to this hour; but almost every other creditor rallied to the support of the liquidator, and enabled him to prevent any undue preference being gained by the creditor in question. In another case in which I was concerned, quite a large section of the creditors, men of high character, desired me to adopt a course which to me appeared simply impossible; counsel advised in favour of their contention, though not upon a case which I had submitted; nevertheless, I maintained my own view, and in the event, nobody had the hardihood to contest the propriety of my conduct in a court of law, although the matters at issue were of no slight magnitude.

Much depends on the preservation of temper and tact in dealing with such cases. It is possible to disappoint many without making an enemy of one; and when it is borne in mind that creditors have often to suffer severely through the unexpected collapse of those in whose solvency they implicitly believed, it will be seen that civility at the least, and every service compatible with duty, is owing from the liquidator to them. Experience shows that creditors are by no means harsh or ungrateful as a class, and the more fully they are informed, the easier they are to deal with, though undoubtedly

they often give a considerable amount of trouble, and are not always rational in their views.

With the aid, then, of the debtor, some of the creditors, and usually the debtor's solicitor, the receiver has, without waiting for the confirmation of his appointment, to grapple with such questions as the following:—

Whether the whole of the debtor's staff or what portion of it should be dismissed?

Whether the premises occupied should be vacated and when?

Whether there are goods, or securities, in the debtor's hands, or held by secured creditors, which should be sold immediately, and how they may best be realised? Sometimes secured creditors hold produce or securities of like nature with other produce or securities unpledged, and if they are suffered to throw such things hastily on the market, it may be long in recovering its tone. Arrangements have in such cases to be made for selling the whole through one medium, and the liquidator may have to finance the business, to prevent rash and precipitate action; for there are those who profit by unfavourable sales, and will not easily be hindered from making such.

Whether any goods held on consignment ought to be given up to the consignor, and on payment of what sum? It will sometimes happen that the debtor has accepted bills or entered into liabilities for the consignor, and the latter has to take them up before he is entitled to claim his goods.

Sometimes there are works in progress, as in the case of a railway contractor or a builder. It becomes a question how to meet the wages due to an army of workpeople, and whether a good arrangement can be come to with the railway companies or others interested for the completion of the work. Some of the creditors may hold largely of the securities of the incomplete undertaking, and may therefore be willing to find cash for its completion on terms which may be arranged. But as any break in the continuity of the work may be disastrous, such negociations have to be hurried through if success is to be attained.

Then there may be ships or steamers on voyages, which are liable to arrest, and which must be released from all difficulty and brought home for sale, in order to duly realise the estate. The liquidator in such cases may have to be ready with his own guarantee or with security if required, to prevent a disastrous course of events. He must judge whether to interefere, or leave the vessel to the mortgagees.

Ironworks, factories, &c,, may have to be kept going, not only to preserve them in a saleable condition as "going concerns," but also to ensure the fulfilment of existing contracts for purchases and sales, which if broken would entail damages all round, but which if carried out may end in a profit. Here again mortgagees and landlords may have to be asked to concede something.

Then there are other contracts, unconnected with manufacturers, which must be carefully scanned. Where, for instance, there have been many speculative purchases and sales of cotton, suppose prices are falling and have fallen, ten to one there are sales at far better prices than those of the day which can be covered by fresh purchases, and a cash margin of profit secured; whilst the purchases made by the debtor at much higher prices need not be fulfilled, but the parties may be allowed to claim and rank for damages. On a rising market, the purchases can be rendered available, and the sales left unfulfilled. Much of course depends on circumstances, such as whether the adoption of the policy here alluded to would involve serious risk? And whether, having regard to the probable rate of dividend, the damages ranked will exceed the profits secured in importance.

One fact not to be ignorant is this; that speculators often fail in groups or several at one time; that speculative dealings often cause the same parcel of cotton to change hands many times, so that a practice of "passing names" has grown up, analogous to that which prevails on the stock exchange. If a long series of persons have successfully purchased and sold the same lot, and the debtor in whose affairs you are interested is low down in the series, it deserves inquiry whether the parcel has ever reached the hands of the firm who sold it to the debtor? if they never had it, they could not claim damages from the debtor for not taking it from them under his contract. In fact, they must not only have had it, but must have taken the trouble to tender it, in a due and legal manner, before their claim to rank for damages can be sustained. I mention this, that when such a case arises, my hearers may not be in a great hurry to admit claims or to do anything which may restrict their freedom to reject claims of this nature.

Naturally, creditors like their contracts carried out, and may wish to have the benefit of corresponding contracts into which the debtor has entered, and where such matters can be arranged without detriment to the estate it is right to arrange them.

In the case of bankers failing, there may be much to do in the way of surrendering securities on payment of accounts or loans, but except in the case of following up risky debtors of the bank who cannot safely be given time until a trustee is appointed, there is little else that is so pressing as to force the receiver into immediate action. In all I have so far been describing, and in much else, the receiver, must run the risk of acting, or of refusing to act, before the lapse of the month or two which at the least must pass before resolutons can be registered.

The custody of the debtor's books, documents, and valuables generally is usually taken on the first day, except when it is convenient to allow the staff of the debtor to complete the books, as in mercantile cases must almost invariably be done.

After having passed a month or two in constant turmoil, the receiver must be prepared to find himself dismissed without any cause assigned, and in that case he may reasonably look for a denial of all fair consideration for his time, trouble, and risk, happy if he be not a pecuniary loser. The trustee who is appointed in his place may make it his business to find fault, and as for any legal claim to payment for services, it can hardly be enforced. The Court of Bankruptcy, in defiance of facts, is guided by the notion that a receiver need do nothing but sit upon the assets and take such receipts as chance to reach him, and consequently his remuneration need only be small. An official can let things go to ruin in that way, no other man can; least of all an accountant, whose future propects depend on making the best of things for his employers, the creditors. There are reasons in the nature of things for this distinction between the official class and ordinary mortals, not altogether discreditable to the former, but the fact remains.

It behoves therefore any accountant who may have before him a proposal, that he will allow himself to be appointed receiver in a given matter, to reflect upon the nature of the business, and the likelihood of meeting with such support as will render his appointment as trustee a foregone conclusion, before he consents. Where one's action is called for by a good client loss may be faced, but in most cases it is neither necessary nor desirable to enter upon such a piece of business without adequate support, and especially not to become associated with schemes for working failed concerns which may turn out disastrously, and which involve outlay in the meantime. When once the position has been accepted, the receiver must put aside the consideration of his immediate interest and comfort, and simply strive to act in such wise that an impartial critic will be compelled to say he could not do more. Whenever need arises for the exercise of discretion, unless the receiver is previously acquainted with the views of his committee, he should endeavour to consult them if possible at a regular meeting, otherwise singly as he can get at them. And in case of great urgency he must even act without them, and trust to have their approval when he reports at the first opportunity what he has done.

A word as to agreements, compromises, undertakings, &c., hastily entered into. Let no man think himself so acute as to require no aid in settling their terms. A little care and

foresight in wording such documents may save bad blood and litigation afterwards. Avoid verbal understandings; or seize the first moment to send a letter reciting them to those concerned, giving an opportunity of challenging any inaccuracy. Above all, do not rely on obscure conditions, which may be read more ways than one, especially if you have the faintest suspicion that the other party views them in a light differing from your own. These words may seem to savour of platitude, but are too important in practice for omission in an address to those who have yet to assume the responsibilities of principals. It is better to be disagreeably plain, than in the least degree vague.

I have sometimes, when asked to intervene at a critical stage of a man's affairs, felt a delicacy which prevented me from alluding to money matters, and have found myself soon after in the position of an unsecured creditor. I think I have been wrong, and that the earlier things of this sort are dealt with, the better. When a service is about to be rendered, people can better judge what it is worth, than when the whole thing has become a matter of history, and they see the bill, but have forgotton the advantage they derived or hoped to obtain. Bear in mind that I am far from advocating any sordid greed, but when the parties, on the threshold of an important piece of work, are not prepared to agree upon some reasonable scale of charge, it is better to allow them to take their business elsewhere.

The duties of the trustee when he has been regularly confirmed in office are more extensive than those of a receiver because they comprehend everything, and not merely those matters which press for instant treatment. One of the chief is the criticism of proofs of debt. The careful realisation of securities may occupy many years, may involve Parliamentary contests, journeys to foreign lands, in fact an infinity of trouble and litigation. Where possible it is well to keep the creditors generally advised of the course of events, by special circulars, or by printing the reports presented to successive meetings of creditors; but I think there is little utility in presenting the whole body of creditors with details, rather inclining to the practice of inviting creditors to attend and make any inquiries they choose, and if they are largely interested, asking them to be present at the committee meetings.

I am sure I represent the general feeling of the profession when I say that litigation should be avoided as far as possible, and when it has to be undertaken should be based on merits and not on technicalities. I have had a good deal to do with such matters, but the rule just stated has almost always led to success when I have been forced into hostile proceedings.

Perhaps I may now proceed to speak of the convenience or otherwise of the existing system. Before doing so I may say that I shall be glad to deal with any practical questions upon the work of liquidation which may be propounded after my lecture has been delivered, but it seems impossible to discuss every imaginable difficulty by anticipation, and I therefore do not make the attempt.

On the whole, I prefer the method of liquidation by arrangement to that which preceded it, namely liquidation under deed of inspectorship. The latter was attended in some cases with much less delay, and it placed the accountant in his right position, that of professional adviser to a body of inspectors who took the main responsibility. In those respects it had its advantages, and they were not small ones, but it was attended with inconvenience in several respects.

First, it is very probable that many deeds were carried into effect, with inspectors named in the interest of the debtor, when very different persons would have been appointed after a discussion at a meeting duly convened, before which a statement of affairs has been laid.

Second, it was sometimes difficult to obtain the signatures of the required majority in value, where large sums were due to trustees or others who desire to be neutral, although friendly to the arrangement proposed. That difficulty has been removed by confining the power of voting to creditors present in person or by proxy, leaving neutrals the option of staying away. It is true this also disables absentees, persons at a great distance, from voting, but it has been usual where such persons appeared to be creditors for large sums, to allow time for them to be represented, at all events at the final meeting or at any meeting convened under clause 28 for the confirmation of a scheme.

Third, it was in the power of solicitors to prepare on each occasion a long deed in such form and with such an arrangement of clauses as they saw fit. Thus creditors were obliged either to sign, as they generally did, a long document without perusal, or else they had to obtain legal assistance to enable them to judge of the bearings of the document. The law as it stands in effect provides a common form, in which the creditors by a few short and intelligible resolutions are enabled to fill up the blanks, so that it is a man's own fault if he does not fully appreciate the character and bearing of the resolutions proposed.

As to the abuses which may arise where the debtor is himself unscrupulous and where a lawyer unencumbered by principle is doing his best for such a client, I can see no greater risk of such abuses under the liquidation clause than under the old deeds. On the whole I should say the deeds were worst. At all events there is opportunity for a diligent creditor under the present law to counter-work a dishonest insolvent debtor. Under a deed of arrangement which might be smuggled along without asking him for his assent he was at a greater disadvantage. I for one feel as Dickens did, that the law for decent people should not be distorted because his typical Sloggings, with the broken nose, the black eye, and the bull-dog, appears to demand a different kind of legislation. I say, take the trouble to inspect the actions of debtors, solicitors, and liquidators, and where a good case can be made out, make an example of Sloggings.

One of the worst abuses attending the system of deeds of arrangement was the creation of fictitious claims, in respect of which persons gave assents, overbearing the opposition of *bona fide* creditors for value. I regret to say, I am told no good authority that such practices are still resorted to. The necessity of supporting every claim by an oath is therefore insufficient to check malpractices of this nature.

In the course of my own business, I have had no experience of such claims as these, though I have seen that persons have sometimes exaggerated ideas of what they are entitled to prove for.

Where such means are resorted to, in order to gain the control of an estate, it is reasonable to look for a dishonest administration of the assets, and if there were means of scrutinising the accounts of estates in liquidation, not so much by way of audit as for the purpose of detecting obvious improprieties, it would greatly facilitate the detection and punishment of fraud. A good deal of jobbery may however remain, after all obvious fraud has been eliminated.

One may sum up the present situation in a very few words; it works well and economically when the law is carried out under the effective supervison of a committee of respectable creditors; in all other cases it is liable to huge abuses, which arise, or not, according as the trustee is honest or otherwise.

The final subject I am to touch upon is the proposed alteration of the law embodied in Mr. Chamberlain's Bill.

The objects Mr. Chamberlain has in view appear to me to be two,

First, to terrorise debtors into declaring themselves insolvent very soon after they find themselves unable to pay 20s. in the pound to everybody.

Second, to keep estates in the hands of public officers in the early stages of the proceedings, in order that such officers may place before creditors at their first meeting, an impartial estimate of the conduct of the debtor, and may also prevent any one gaining a practical control of the

estate before the creditors have met and voted upon the subject.

He does not disguise his belief that the creditors would often wish to leave the estate under the control of the official receiver, and he believes in liquidation by officials as being more economical and honest than liquidation by a nominee of creditors, save in the more important cases of liquidation, with which he does not desire to interfere.

My humble opinion is, that Mr. Chamberlain will fail in his first object, because, first of all, human nature is such that hardly any man estimates his assets at what they are really worth, nor do people usually take into account the whole of their liabilities. A man may easily become insolvent without knowing it, and may never find out his real position until absolute dearth of cash compels him to test the value of his other assets. In the next place, the mere fact of failure is destructive of a man's property. A business established and earning a certain profit has a certain value; if it be stopped, that value very nearly disappears. If then through rash speculation, an expensive family, or casual bad debts a man in trade becomes unable to pay 20s. in the pound, his creditors are by no means certain to think it beneficial to their interest that he should wind-up his affairs. They keep their customer by keeping the business going. He can better afford to pay them privately 13s. 4d. than by open liquidation 6s. 8d. and by their indulgence he may recover his position and even end in becoming rich.

I think that more co-operation amongst creditors, on the model of that which takes place in the wholesale drapery trade, is desirable. A Chamber of Commerce might do real service by allowing one of its employés to act as proxy for members of the Chamber, or even for fellow townsmen, and restricting his further action to that of a committee man. Such an official would soon become experienced, and would wield a power as serviceable to honest men as it would be inconvenient to others. The objection is that he would know too much.

Then as to the intervention of official receivers in the multitude of small cases, I am rather inclined to expect good to result, should the receivers be carefully chosen, because in such cases the evil done by officialism is at a minimum. The affairs of small debtors are apt to be simple enough. Their conduct even may be gauged without much delay or difficulty. But every step from the simplest form of liquidation adds to the evils of official interference, and decreases the power of an official to arrive at a speedy and just decision upon the subject of the debtor's conduct. I am sure that in large cases, the need of presenting an early report, whilst the glamour of mercantile eminence yet clings about the debtor, would lead to the presentation of reports much too favourable to gentlemen whose like I can recollect.

There is some need of interference to prevent an estate being got hold of, before a proper person has been nominated by creditors; the question is whether such interference should take the form suggested by Mr. Chamberlain's Bill, or whether the court should accept a little more responsibility by calling on some of the creditors known to be reputable people to nominate their man without waiting for a meeting and without regarding too closely the amount of the debts due to the creditors so called upon. But responsibility for any initiative is what Judges dislike more than anything else, and in the absence of the action suggested, I concede that the option is only between an official and the present method.

Mr. Chamberlain might usefully reflect upon two things; one being that notwithstanding all the outcry about liquidations, creditors as well as debtors prefer liquidation to bankruptcy, for the simple reason that they like to have the full and unfettered control of the business of winding up an estate. The vast mass of estates where liquidation or composition is agreed upon, must be supplemented by the estates assigned for the benefit of creditors and the other estates arranged even more privately, before the total administered outside bankruptcy can be arrived at. The other point is this, that by multiplying officials and machinery he is sure to cause unnecessary expense and increased delay; at all events that is so wherever he has to do with honest people. A smaller expense and no delay would be incurred by establishing a small board of supervisors, to see the law executed, and to enquire at their pleasure into all liquidation proceedings, reporting both upon debtors and liquidators, and furnishing for the first time reliable statistics as to the operation of the law.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

The second general meeting of the Manchester Accountants' Students' Society was held in the Old Town-hall, Manchester, on Monday evening, 5th March, 1883, at half-past six o'clock. There were present:—Adam Murray, Esq., F.C.A., in the chair, David Smith, Esq., F.C.A., C. R. Trevor, Esq.. F.C.A., and a large attendance of members. The minutes of the previous meeting were read by the Hon. Sec., Mr. A. E. Piggott, and duly confirmed. Mr. Murray, after a few introductory remarks, called upon Mr. C. R. Trevor to deliver his lecture on "Book-keeping and Auditing," whereupon that gentleman delivered the following lecture:—

Having chosen "Book-keeping" as the subject of the first lecture to your society, I may be asked why so commonplace and uninteresting a subject should be selected to fill so prominent a position. Why not choose one of the many more important subjects of a higher grade, more distinctly expressing some of the several branches of the practice of accountancy, and more worthy of the foeman's steel? I answer, because it is equally more logical, more scientific, and more practical to begin at the basis, to lay a solid foundation before attempting to erect a superstructure, and to prove the soundness and solidity of such foundation before propounding elaborate designs for the ornamentation and enrichment of the intended edifice. I maintain that these remarks have a fitting application to the circumstances of our young and promising Society; and although some of our more advanced members, our A.C.A.'s and those who fill important positions in the office of our city may be disposed to look upon the subject as one rather beneath their attention. I ask them to consider those for whom more especially the Society has been formed, those who are aspiring to become the A.C.A.'s and F.C.A.'s of the future, not by the more easy path of so many year's service and experience, but by the more creditable and satisfactory test of the examinations prescribed by our Institute under the authority of her most gracious Majesty's Charter of Incorporation. The proposition that bookkeeping is a necessary part of the education of a man of business is scarcely yet recognised to its full extent in educational arrangements, but in considering the needs of a student in accountancy we must go further than this, and say that a thorough grasp of the theory and practice of bookkeeping, not only in its first principles and outlines, but in its more complicated and varied details, is an indispensable requisite to proficiency in the duties of an accountant. This is fully recognised by the foremost place given to bookkeeping in the petition for the Charter, and in the list of subjects for the intermediate and final examinations. Bookkeeping is described as "the art "of recording mercantile transactions in a regular and "systematic manner; the art of keeping accounts in such "a manner, that a man may know the true state of his "business and property by an inspection of his books." It is therefore of the highest importance to every person in business to have the benefit of this art brought to bear upon the management of his affairs, and the advantages which may be derived from it are most easily illustrated by the

facts which come within the experience of the accountant, when his assistance has to be invoked in order to discover and report upon the evil consequences which have been induced by neglect of its use. Amongst the consequences which frequently come to light as resulting from ignorance or disuse of this art may be enumerated the following:—uncertainty as to the trader's true position with his creditors and others, inability to trace the causes of loss or leakage in his property, disputes between persons in trade, the opportunity afforded to dishonest servants to commit small and increasing thefts through the absence of check upon their dealings, and finally, insolvency, bankruptcy, and ruin, which might have been prevented by a timely acquaintance with the true state of his affairs, by a reduction of expenditure of arresting of loss, which such knowledge might have led to. Bad bookkeeping may be called the accountant's "provider," by producing the necessity for his employment either to remedy the evil before it is too late, or to bring to light its effects when the case has become hopeless.

It is well-known that the art was first practised in Italy by the enterprising merchants of Venice and Genoa, and that the first treatise on the subject was produced in 1495, by Lucas de Borgo, in the Italian language. The pioneers of commerce and banking of those days thus became the introducers of the system first called the "Italian," because the extension of their trade led to the necessity for systematising its records, and their prudence led them to appreciate and adopt the new-born art.

Some writers on bookkeeping speak of "single entry" and "double entry" as two distinct and separate systems, the one of a simple and the other of a more complex character, but I rather agree with those who regard single entry as imperfect and wanting in system, and maintain that there is but one true method deserving the name of a system or art, and that "doubly entry" may be adopted to all and every character of business or description of accounts. It is claimed for the Italian method, as adopted by modern practice, "that it grounds itself upon the scientific axiom "that the whole is equal to the sum of all its parts; that it "is satisfied with nothing less than a perfect equilibrium "between the total amount of all the debtor accounts on "one side and that of all creditor accounts on the other "side; that it arrives at this ultimate result by exacting, at "every step of its progress, the same equilibrium between "the debtor and creditor in each entry; and, by suffering "no event, either inwards, internal, or outwards, to take "place without a self-balancing entry, that it secures at "last its great object of presenting a perfect picture when-"ever all these separate parts are collected together as a "whole." The art of bookkeeping however, differs from many other arts, especially those known as "the fine arts," in this respect, that whilst the latter depend upon or are greatly aided by the imaginative powers of the mind, this art, on the contrary, accepts only dry and stern facts, and cannot choose its material or reject at pleasure but takes the facts as they arise, disjointed and unconnected as they may be, and weaves them into a complete and well-arranged whole, each part filling a necessary place, and the whole constituting what is described as "a perfect picture of a merchant's affairs" which can be readily grasped and understood, and which displays its artistic character by its simplicity and clearness and truthfulness to nature.

As I do not propose to regard "single entry" as a system, or as forming a part of the art now described, I will make only one remark respecting its treatment by the accountant or auditor, and that is, that when called upon to complete, to bring into order, or to deduce results from accounts kept in this manner, the principles of double entry must be applied, and the conclusions tested and proved by their means. I do not mean to assert that it is necessary in every case to raise and extract nominal accounts, and produce a perfect balance by their means, but that in some form or other, either by accepting totals or collecting the materials to arrive at them, we must imagine ourselves to be dealing with a double set of accounts, and find out whether the conclusions to which the figures point are consistent with an even balance of the whole. Complications which the single-entry bookkeeper is unable to unravel may be dissolved by supplying the counterpart, and treating the items in double-entry form. As an illustration I adduce the following from experience:—A. and B. were in partnership as horse dealers; A. put in £500, and B. £150; they usually divided the profits when they realised them, and kept no books. Mutual confidence having been destroyed, a suit was commenced in the equitable jurisdiction of the County Court, and the Court decreed a dissolution and the taking of accounts. It appeared from receipts and scrap memoranda that the unsettled purchases and payments amounted to £567 9s. 2d.; that B. had sold five horses for £200 and retained the amount; that a blind horse had been sold at a profit of £2 10s., and a pony at £8, and the profits retained by A.; that two horses costing £90, remained unsold, and had cost in keep £15; and that the liabilities amounted to £3 12s. 6d. The two horses were sold for £70. By raising a trading account and capital account it was shown that B. was entitled to pay and A. to receive £202 15s. 10d., and on this account the suit was closed.

Proceeding now to consider the books and accounts which are necessary to carry out the system of double entry, I find it most conducive to our present purpose to regard them from an auditor's point of view, and I classify them as follows:—

1st. Books of original record.

2nd. Books of collection or aggregation.

These again may be subdivided into principal and subsidiary books. Most old-fashioned treatises on bookkeeping provide only one book of original record, the "Waste Book," a sort of hotch-potch into which every transaction, cash, bill, or credit, is to be tumbled in the first instance, afterwards to be fished out and bagged or parcelled according to its proper family. This may serve well enough for first lessons in book-keeping to school boys, to whom every kind of transaction is new, but in practice a waste book can only be a memorandum book for noting such things as are not sufficiently matured for record in their proper place. It is a valuable principle in business that nothing should be trusted to memory alone, therefore, by all means have a waste book or scribbling diary at hand, but only for notes, and for this obvious reason, that what is recorded therein has to be rewritten in its proper place. Books of original record must naturally differ, more or less, with every kind of business or subject of accounts, but as most subjects comprise buying and selling, receiving and paying, we must necessarily find—

1st. A Cash Book—with its subsidiaries; a Rough Cash Book (if needful), a Petty Cash Book, Wages or Salaries Books, Postage Book, Disbursement Book or Books, and probably others. The advantage is now well recognised of making a cash book contain all that appertains to its department, viz. the record of discounts and allowances on both sides, and the bank account (or accounts, if more than one be kept) in separate Dr. and Cr. columns; and to these may often be added columns for collecting items falling into one account, so as to post them in total instead of in detail, such as cash sales in a retail and mixed business, trade expenses, or debits or credits to special departments; for instance, in the cash book of a society or institution to gather in separate columns subscriptions, donations, and payments for services; or of an hotel or club, to collect bar receipts, rooms, refreshments, hire, stabling, &c. The bank columns should always be so arranged as to avoid the entry of the bank's name in the description columns, by placing bank Dr. on the Dr. side of the book and bank Cr. on the right or Cr. side, by which means we make cash Dr. to Jno. Smith and Co. for £200 received, and bank Dr. to cash for £200 on the same line and the same page, thus completing the record of the double transaction. Another

practice is sometimes adopted, as recommended by A. E. in *The Accountant* in his articles entitled, "Accountants: their Duties and Responsibilities." It is to "enter the £200 before mentioned in the bank column only, and post thence to the ledger. The next column is then entitled 'House,' and used only for the insertion of such sums as are not paid to or drawn from the bank, but disbursed as cash." This plan is also adopted in Hamilton and Ball's specimens. It has the advantage of avoiding the necessity which exists in the other plan, of bringing the total of the bank receipts and payments into the cash columns before a balance can be struck, and it may be the most convenient for some businesses. On the other hand, it has the disadvantage, as shown by A. E's. specimen cash account in *The Accountant* of August 26th, 1882, of requiring duplicate entries on the opposite sides when any sum drawn from the bank is disbursed in cash.

2nd. Most instruction books prescribed the *Journal* as the book of original record for all credit transactions, and this is followed by A. E. in *The Accountant*. We know, however, that it is contrary to modern practice, and that greater convenience has resulted from the adoption of a day book for credit sales, and an invoice or bought book for credit purchases. Further advantage may be gained by posting direct from these books to the ledger, and by providing them with columns for collecting and classifying the debits and credits to nominal accounts, and posting the latter in monthly totals only. Still, in principle they are only parts or divisions of the journal, and some standard authorities make it part of their system to pass the monthly totals through the form of journal entries without personal details, the latter having been already carried to the ledger by daily postings. I do not see an advantage in this sufficient to justify the time and space occupied. In large establishments, both wholesale and retail, it is found necessary to have two or more day books in use concurrently on alternate days, to allow of the one not required for the daily record being in the hands of the ledger clerk for posting. This plan secures punctual daily postings. There are other transactions of which the journal must necessarily contain the record, which could not be included in the day or invoice books, such as the opening entries at the commencement of a set of accounts, casual matters not admissible in the cash book, and the entries of stocktaking. In this *must* also be included bills payable, and there *may* be included bills receivable. The original records of these must of course be found in the bill book or books, and Hamilton and Ball's instructions allow of postings direct from both the bills payable and bills receivable books to the ledger, the contra postings being made in totals from the journal at the end of the month. I object to this, that it is more convenient that the ledger should contain the separate amounts of bills, and that the saving of time by being able to trace each bill in balancing more than compensates for the extra labour. I have remarked that bills receivable "may be included" in the journal, but I prefer to pass them through the cash book, adding the words "bills due such a date," because they are often, especially bankers' drafts, received and paid as cash, and frequently cash and bills together are received and paid as one transaction. Some enter bills payable through the cash book, debiting the draw and crediting bill account, but to this I object that it is not a cash transaction, and that the giving of an acceptance is seldom or never combined with a cash payment. The practice of journalising the cash may now be regarded as antiquated and a waste of time, excepting in certain cases, in which it may allow of grouping and posting in totals; this, however, could most generally be better attained by extra columns in the cash book.

In the transactions of importing and exporting merchants and shipping and shipowning firms, the journal is a most important book, and the construction and narration of the entries affords one of the best tests of a bookkeeper's intelligence and capabilities. A new form of journal was suggested and adopted by my late partner, Mr. C. F. Richardson, and has been found very useful for large companies having several establishments, keeping their own set of accounts and making returns to be passed through the books of the head office. The form is as follows:—

It is found very simple in working, and as it requires the same amounts to be inserted singly or in combination in both the debit and credit columns, it affords ready check by adding the totals. This should also be done in an ordinary journal but it is not possible unless the rule is followed of inserting each item twice in an entry of one amount only.

I now proceed to books of collection and aggregation, and these are all comprised under the generic term of "the ledger," although this may be subdivided into many books, such as sales ledger, purchase ledger, nominal ledger, private ledger, &c. On the continent, a ledger is not received as evidence, inasmuch as it is not a book of record, and its use in a Court is allowed only as a medium of reference to other books. All the other books of account may, therefore, be regarded as subsidiary to the ledger, as they all lead up to it and make their several contributions to each separate account. Besides the necessity in every large business of using a separate ledger for each class of accounts, as mentioned above, great advantage results from subdividing a ledger, and classifying the accounts either alphabetically, or according to country district or locality. This is a much better principle of classification than that often adopted of having part of a ledger divided into half-pages and part into thirds and fourths of pages. If more than one ledger is required for personal accounts, they should be folioed continuously, and the first and last letters of each group imprinted not only on the cover of the ledger, but also on that of the index.

The nominal accounts to be adopted in opening a set of books must of course vary with every description of business, the object to be kept in view being to convey by the trade or profit and loss account a perfect picture or birds' eye view of the character extent and features of the business, as well as its result. It is also very useful to be able to show the working and results of each department separately, by debiting to one and crediting to the other such goods or articles as pass completed from one department to enter into a new state of manufacture in another. Thus, in the staple of our district, spinning and weaving may be shown separately by a judicious arrangement of accounts to be kept in the office, and the securing of proper returns of yarn produced, and the consumption of certain articles in the mill or shed.

I believe the manufacturers generally have but little idea of the extent to which they may be aided in the supervision of their business by carefully arranged and accurately kept statistics of cost and production. For instance, the percentage of yarn produced from 100 lbs. of cotton, the proportion of loss in different departments of waste, the cost per lb. of yarn or cloth in wages, coal, lubricating, repairs, general charges, interest, depreciation, &c., are exceedingly useful in comparing one period with another, and testing the result of any change of article used, decline or advance in prices, changes of management, &c. The importance of distinguishing precisely between charges to capital and income is often but little appreciated by book-keepers, and auditors are frequently much troubled in dissecting and re-arranging such accounts as plant and repairs, although the rule is a very simple one, that anything which adds permanently to the value of plant, or replaces any important part of machinery may be added to plant, &c., less the proceeds of sale of old machinery, whilst the cost of repairs and maintenance of machinery in efficient working must be borne by income. Nice questions of this sort arise from time to time, which might be very usefully introduced for discussion in a student's society, as also the general questions of the proper percentage to allow for depreciation of different descriptions of plant and machinery. It is all important to have clear ideas on these points in opening the books of a company or

manufacturer, and disposing the plant accounts according to the different percentages of depreciation to be deducted.

On the subject of balancing, the advantage of a frequent trial balance may be strongly urged for several reasons: it is generally a saving of labour in the end by shortening the time and extent of work to be scrutinized in order to discover any errors which may have crept in; it is a useful exercise to the bookkeeper, helping him in the principles of his work, and forcing upon him the necessity of exactness; and the exposure of the errors at short intervals brings unsettled accounts to light, and may often avoid loss by their being otherwise lost sight of. For this purpose a trial balance book with three or six sets of money columns on a page should be used, to avoid the re-copying of names and folios. Perhaps one of the most frequent causes of difficulty in getting a balance arises from imperfectly formed figures being mistaken and probably passed in calling over. The regulations laid down for candidates in the Civil Service examinations may be well applied to bookkeeping in general, and are especially important to accountant students, viz.: "Handwriting should be free from flourishes, compact, and "with every letter distinctly formed. Figures should be "correctly formed, and kept properly under each other. "Care should be taken to copy names, dates, and other par- "ticulars, with perfect correctness. No part of the work is "to be re-copied, but every entry is to be written at once "into the books provided. No erasures are to be made; if "if any correction is necessary, it can be made by drawing "the pen through the part which is erroneous, and then "making a fresh entry."

In bringing down the balance of a ledger it is customary to close an account having a debit balance with the words "by balance carried down" or "forward." My first lessons in an accountant's office of very large practice declared this to be erroneous, because the line is only inserted on the credit side for the purpose of producing an equilibrium, and is not a double-entry posting in that form. The word "by" can only be admissible when it is a closing of the books by means of a journal entry to a "balance account." The bringing down of the balance on the debit side is, of course, properly defaced by "to" because the entry in that form represents the true state of the account. Probably the custom in France is the most strictly correct, which is to insert on the credit side *balance de sortie*, and on the re-opening of the account on the debit, *balance d'entree*; but this appears to be done in connection with journal entries, which the French system rigidly requires.

The special books required by a joint-stock company for recording the allotment, calling up and distribution of its capital, do not fall within the ordinary course of bookkeeping, and should rather be treated in connection with the formation and auditing the companies' accounts. As, however, the capital account is necessarily a part of the system, a few words respecting it may not be out of place. The capital should be credited with the entire amount called on the shares allotted, and corresponding debits should be raised to deposit account, allotment account, first call account, second call account; these accounts having their credits posted from the cash book as the respective payments come in. Thus any payments in arrear will appear by debit balances to the respective call accounts, and sums paid in advance of calls by credit thereto. Payments made on shares forfeited by reason of non-payment of calls reduce the capital of a company on which dividend has to be calculated, and also in winding-up they reduce the amount to rank for returns of shareholders; therefore the amount must be stated separately on the balance-sheet, and carried to an account of "shares forfeited." Of late years, when companies have in some cases had large accumulations to the debit of profit and loss account, a release of capital by forfeiture of shares has proved a very convenient mode of bringing a credit against these losses. It is the established practice in preparing the balance-sheet of a joint-stock company to state the capital before the liabilities to creditors. I suppose, because the schedule to Table A in the Companies Act, 1862, prescribes that form. It is most likely that the framers of the Act adopted that form because it had been in use by companies existing before the passing of that Act, and therefore the form was originated by the compilers of accounts previously published. I submit, however, that it is illogical to place the capital first, because it is evident that it does not form the first charge upon the assets, and that, to be consistent, the same order should be observed as in the balance-sheet of a private firm, in which we invariably place creditors first, and afterwards show the distribution of the capital or surplus amongst the respective partners.

In preparing the profit and loss or trading account of a company or private business, it is very useful that the account should present, as before stated, a complete picture of the business. This cannot be the case if, as is frequently done in companies' accounts, balances of different departments are brought to credit without showing what each has done; and I submit that the credit side of the account should show the amount of sales in each department, and the debit side the expenditure, arranged departmentally or under suitable classifications corresponding with the books. It is still better to be able to show the trade account of each department separately bringing the balance of each into the profit and loss account, from which will appear what amount each has contributed to cover the general expenses, interest on capital, depreciation, bad debts, and any items which cannot be placed against a particular department, all which will, of course, appear on the debit side, as well as the loss which any department may have incurred.

Provision for bad debts should be made systematically, not by writing off the exact amount of loss incurred, but by a percentage on the credit sales, which would then be placed to the credit of "bad debt account," and the account would be debited with the actual losses. By this means, such losses become equalised yearly, and a balance remains at the credit as a provision against possible losses on debts still current. Without this, the first year of a business will have little to bear, and the apparent profit will be unduly increased, whilst subsequent years will have to bear losses properly appertaining to earlier ones, as the years in which the profits earned but not realised have been brought to credit.

Discount to be allowed or received on debts owing to and by the business ought not to escape attention, and it is generally most convenient to average the percentage by inspection of the terms of sale, or experience of previous settlements. The list of creditors may, however, frequently contain a large proportion of "*net*" accounts, in which case it may be useful in copying out the list to place net sums in one column and those liable to discount in another, deducting the average percentage from the latter.

In the questions on bookkeeping set for the final examination in July, 1882, there occurs the following:—"Give an example of a balance-sheet prepared by single entry." At first sight this may appear a contradiction, as it is impossible to obtain balance of accounts which are posted on one side only, and it seems preferable to call such an account a "statement of affairs," as in truth it can be nothing more than this. I suppose the reason for calling it a balance-sheet arises when it has to contain partner's accounts, to include a deduction and division of profits, and to show an agreement of the total capital with the surplus of assets over liabilities. But in this case the balance is a suppositious and forced one, and cannot be proved, and such an account is a combination of liabilities, assets, capital, and profit and loss, and is surely more fitly called a "statement of affairs" than a balance-sheet. In such an account the "liabilities" side must include the capital due to each partner at the commencement of the term; and the "assets" side must contain the drawings during the term, in order to deduce the profit by discovery of the sur-

plus. And after bringing down and dividing the profits, the capital accounts must be raised and worked out again after addition of profit and deduction of drawings. I consider it more consistent with principle and more easily understood, to raise a profit and loss account by debiting it with the surplus at the commencement as proved by the totals of the capital account, and crediting it with the newly found surplus and the drawings; interest on capital must also be debited, and the profit will then appear. In such case the capital accounts are better shown separately in debtor and creditor form as in a private ledger without double entry, and the balance-sheet may then more truly bear that name, the balance having been obtained by the raising of the profit and loss account, which is truly a nominal account, but it has ceased to be a "balance-sheet prepared by single entry."

I adduce these points not for the purpose of appearing to be critical, but to suggest a thoughtful consideration of the forms which we use, and the reasons why we use them.

I do not agree with the proposition of Mr. Guthrie, that in preparing a balance-sheet we should place the assets on the left and the liabilities on the right. In the first place, I think that the practice of stating liabilities and assets is too well established and confirmed by legal enactments to make a change either politic or desirable; and in the next place, I refer to the foregoing remarks as showing that it is necessary to use that order of debiting the account with the liabilities, and crediting it with the assets, in order to bring the surplus at the credit of the firm in its only proper place, viz., on the right-hand side.

As regards works on bookkeeping, the pamphlet lately published by the Manchester Society containing Mr. Guthrie's paper, gives at page 17 a long list of books on the subject, ranging from 1721 to 1882. I do not suppose that all are now obtainable, or that the use of the earlier ones could now be recommended, nor am I able to say from acquaintance with them which the student should adopt. Hamilton and Ball's 2s. book, of the Clarendon Press series, I can speak of as having found it very useful in giving college lessons on the subject.

I intend devoting a portion of this lecture to Auditing, but the time already occupied will not now permit of it beyond a few general remarks. I have treated the subject of bookkeeping from an auditor's point of view, and must therefore leave the discussion of an auditor's duties to others who may follow me more ably. What I may briefly add, must therefore be more immediately in connection with the books themselves.

It is highly necessary in the first place to enquire into the system upon which the accounts are kept, and having obtained a complete list of all the books in use, both principal and subsidiary, to ascertain the character and scope of each, and their relation to each other. Having thus discovered the books which contain original entries or records, it becomes advisable in most cases to trace these entries forward into the books of collection or aggregation, and so to exhaust them that every item of their contents becomes marshalled in its proper place. The modern system of posting from original books into the ledger is of great advantage to the auditor, and more generally conducive to correctness than when the entries are collected and arranged in a journal prior to posting, as it is evident that the more the intermediate stages of copying, the greater the liability to errors. In calling over from one book to another, as in many other things, two are better than one, both in saving time and securing correctness. Any figure which is not distinct, or which may admit of being taken for one or another, should not be passed without being marked distinctly, and every questionable entry or doubtful point should be immediately noted on the sheet or audit book, so that it may be disposed of in due time. In the first audit of a set of books, if the plan of the audit be carefully laid down, it will serve as a guide for future occasions, and where changes in the mode of entering or the references from one book to another are necessary, a written statement of such changes is more likely to be attended to than verbal instructions. An audit to be thorough must be systematic, so as not to allow any item to escape scrutiny, and where it is possible, each book or section of work should be made to prove itself.

The responsibility of the work is great, and no saving of trouble should be allowed to act as an inducement to relax the strictness of our scrutiny. Let us act in all things under the consciousness of an unseen eye discerning our work and our ways, and let no fear or favour divert us from a strict performance of our duty.

In conclusion, I thank you for listening with patience to what I fear has been a somewhat dry and tedious essay, and I hope that succeeding lectures may prove more interesting and useful. My work has been in some sense to break up the ground, in order that it may be planted and bear fruit in due season to the advantage and profit of all.

Mr. David Smith, in proposing a vote of thanks to Mr. Trevor for his interesting lecture, said that the lecturer seemed to possess in a wonderful degree the power of condensation, and was able to compress into a few words a large amount of thought. He (Mr. Smith) said that in his opinion bookkeeping by single entry was simply the collection of a mass of memoranda, and did not serve to show the real position of affairs. He also stated that undoubtedly a great many men became insolvent because, through imperfect bookkeeping and imperfect knowledge of it, they did not know how their affairs stood. He also urged the importance of saving labour and not "making work," and of a true and thorough system of stocktaking. He begged to move "That the warm and hearty thanks of this meeting be given to Mr. C. R. Trevor, F.C.A., for his instructive and interesting lecture." Mr. Walkden seconded the proposition, which, upon being put to the meeting, was carried unanimously.

Mr. Trevor, rising to reply, expressed the pleasure it gave him to assist the society, and hoped that a few profitable ideas might be carried away. He said that the title was hardly correct, and that he hoped the subject of "auditing" would be dealt with before long by some other gentleman. He suggested that various classes of accounts might taken up for subjects.

Mr. Murray then made some announcements regarding future lectures, and also spoke of the importance of double entry, of trial balances, of the bank column in the cash book, and of the principle of allowing for bad debts at a fixed rate of percentage; and gave various instances that had come under his own personal experience.

Mr. Harris then asked a question regarding a point in practice, and also a question relative to a postage book, and the real meaning of the auditor's certificate; when Mr. Trevor replied thereto, stating that in regard to money spent in the alteration of a building which did not leave it of greater value than before, such a charge ought to be written off during the term of lease held by the tenants for whom the alteration was made. He further said that the cost of patents should be written off at so much per annum during the term of the patents—and that as far as practicable an auditor's certificate should be expressed so as to convey a true idea of the extent to which the investigations had been carried, and that all audits should be as exhaustive and thorough as possible. He also spoke of the advantage of a properly kept postage book, both, as a safeguard against petty theft, and also as a book that would enable a clerk who posted letters to make, if necessary, an affidavit of same, for which purpose the time of posting and the initial of that one who posted the letters should be inserted in an inner column in the book.

Mr. Murray made a few closing remarks; after which Mr. Cooke proposed, and Mr. A. E. Piggott seconded, "That a cordial vote of thanks be given to the chairman, both for the position he occupied this evening, and for the great interest he manifested in the general welfare of the Society," which was heartily and unanimously accorded. Mr. Murray replied thereto, and the proceedings terminated.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

PRELIMINARY EXAMINATION.—JUNE, 1883.

ARITHMETIC.

1. Simplify— $\frac{\frac{1}{7}+\frac{1}{11}+\frac{1}{13}}{\frac{1}{7}+\frac{1}{11}+\frac{1}{13}}$.

2. Prove that the addition of the same number to the numerator and denominator of a fraction brings the fraction nearer in value to unity.

3. How much will 95 yards of paper cost at 3s. 6d. per piece of 11 yards?

4. How many pairs of gloves at 1s. 10½d. the pair will cost as much as 141 yards of silk at 4s. 8d. a yard?

5. What is a decimal fraction? Prove the rule for the position of the point in the multiplication of two decimals. Take as an example $32{\cdot}416 \times 2{\cdot}045$.

6. Write down as decimals of £1:—£3 11s. 4½d., £2 17s. 6¾d., £4 5s. 4d., £6 1s. 10¼d.

7. Find the simple interest on £4,763 11s. 6d. for 17½ years at 3¾ per cent.

8. Find the compound interest on the same sum for 5 years at 4 per cent., using decimals.

9. A man owes £14,500 3 per cent. stock, which he sells at 101½ and reinvests in 4 per cent. stock at 106⅜. Allowing ½ per cent. commission on each transaction, find the difference in his income.

10. In what proportion must coffee at 10d. and chicory at 5d. per lb. be mixed, so as to yield a profit of 20 per cent. when sold at 1s. the lb.?

ALGEBRA.

1. Prove that $(a^2-b^2)(c^2-d^2) = (ac+bd)^2 - (ad+bc)^2$.

2. Resolve into factors a^6-y^6 and $(a^2+b^2)(-4a^2b^2)$.

3. Divide $x^6+4x^5-3x^4-16x^3+2x^2+x+3$ by x^3+4x^2+2x+1.

4. Simplify—
$$\frac{1}{(x-a)(x-2a)} - \frac{1}{(x-a)(x-3a)} + \frac{1}{(x-2a)(x-3a)}.$$

5. Simplify— $\frac{x^2+2x+2}{x+1} - \frac{x^2+4x+6}{x+2}$.

6. Determine x from the following equations:—

(i.) $\frac{x\times 7}{9} - \frac{3-4x}{5} = \frac{x+2}{4} - 1$,

(ii.) $\sqrt{x^2+3x+9} = x-5$.

(iii.) $\frac{48}{x+3} = \frac{165}{x+10} - 5$.

7. Find the square root of
$$\tfrac{2}{4}+6x-17x^2-28x^3+49x^4.$$

8. Reduce to its simplest form
$$\frac{a^3+a(1+a)y+y^2}{a^4-y^2}.$$

9. Determine x and y from the following equations:—

(i.) $\left.\begin{aligned} 7x-\frac{13y}{2} &= 15 \\ 8y-3x &= 4 \end{aligned}\right\}$.

(ii.) $3x+5y-70 = \frac{x}{5}+\frac{8y}{3} = x+y+8$.

(iii.) $\frac{x+a}{y+b} = a-b$; $\frac{x-a}{y-b} = a+b$.

10. Why are two equations necessary to determine the values of two unknown quantities? Give three of the positive solutions of the equation $8x-3y=6$.

11. Solve the following equations:—

(i.) $x^4-7x^2-18=0$. (ii.) $\sqrt{x+5}+\sqrt{3x+4}=7$.

12. The difference of the squares of two consecutive numbers is 15; what are the numbers?

MATHEMATICS (OPTIONAL).

1. Resolve into their simple factors—
$$x^2-ax+ab-bx,\ x^3-64y^3,\ x^8+x^4y^4+y^8.$$

2. Simplify—
$$\left(\frac{3a^4x-6abx^3}{4b^3x^2-2a^2b^2} + \frac{8a^3x-27x^4}{12a^2b^2+18ab^2x+27b^2x^2}\right) \div \frac{25a^2x-36x^3}{123a^2b^2-144ab^2x}.$$

3. Show how to find the sum of n terms of a Geometrical series. What is meant by the sum of a series to infinity? Prove the rule for calculating the value of a recurring decimal.

4. Find the sum to n terms of the series of numbers
$$1, 4, 9, 16, 25\ ..$$
Thence determine an expression for the sum of the series
$$1, 5, 11, 20, 33\ ..$$

5. Find the total number of different arrangements that may be made of four things taken singly and in combination of two or more together.

6. What is meant by the *modulus* of a system of logarithms? If $x = \log N$ to the base a, and $y = \log b$ to the base a, and $z = \log N$ to the base b; find the relation between x, y, and z. Given $\log_{10} 8 = {\cdot}90309$ and $\log_{10} 9 = {\cdot}95424$: find $\log_5 {\cdot}0072$.

7. Find an expression for the present value of an annuity of £a a year, to commence at the end of p years, and to continue for n years.

8. Define the *sine* of an angle. Fine the series of values of θ that have a given sine. Prove that
$$\cos 3A = 4\cos^3 A - 3\cos A.$$

9. Given two angles A and C of a triangle and the adjacent side; show how to find the other sides.

Express the area of a triangle in terms of the two angles and the adjacent side.

10. The angle of elevation of a tower at a distance of 20 yards from its foot is twice as great as the angle of elevation 80 yards from the same point. Find the height of the tower.

11. Define *duplicate ratio*; and prove that similar triangles are to one another in the duplicate ratio of their homologous sides.

12. Define *compound ratio*. Show that any two parallelograms having to one another the ratio which is compounded of the ratio of their bases and altitudes.

INTERMEDIATE EXAMINATION.—June 1883.

BOOKKEEPING.

1. Explain the terms "Debit" and "Credit," and give two examples of each.

2. Smith sells Robinson 38 quarters of Wheat at 42s. 6d. a quarter, and buys from him at the same time 6 cwt. of Cake at 2d. per lb. Which is the Debtor? Show the transaction—

(*a*) As it appears in Smith's books.
(*b*) As it appears in Robinson's books.

3. A. and B. go into partnership as Boot and Shoe Manufacturers, and consult you as to opening their books. What books would you consider it necessary for them to have?

4. Enter in the Day Book, and post to the Ledger, the following Sales:—

Jan. 1. Sold John Hughes, of Carnarvon—
No. 7312. 3 Plated Toast Racks @ 15s.
7314. 2 do. @ 14s. 6d.
5263. 1 Tea and Coffee Service, viz.:

Coffee Pot	£5	15	0
Tea Pot	4	5	0
Sugar Basin.. ..	3	13	0
Cream Jug	2	12	6

Subject to a trade discount of 30 per cent.
Jan. 2. Sold William Pell, of Newcastle—
No. 903. 1 Case of 12 pairs of silver fish-eating Knives and Forks, @ 18s. 6d. per pair net. Case, 13s.

5. Enter in the Cash Book, and post to the Accounts in the Ledger opened above:—

Mar. 5. Received from Hughes £10 11s. 9d., and from Pell £7 10s. 6d.
,, 8. Received from Hughes £3 0s. 3d., and from Pell £3 13s. 6d.

Balance the Ledger accounts, and bring any balances down.

6 What are "Bills Receivable" and "Bills Payable"? Give ruled forms of a Bill Book, inserting headings of columns.

7. I, Peter Plant, draw on Colman and Co., at 4 months from Oct. 28th, 1882, for £309 2s. 7d., payable at the London and Westminster Bank. I receive, in settlement of my account against Matthew Flight, a Bill of Exchange drawn by him on Tom Cuttle at 3 months from April 5th, 1883, for £400, payable at the Union Bank, London. I gave Wm. Smith my acceptance for £148 2s. 7d., drawn by him at 2 months from Jan. 1st, 1883, payable at my office, 3, Copthall Buildings, E.C.

Enter these Bill transactions on the forms you have prepared.

8. I have Cash in hand £8 3s. 3d. On May 8th I receive from Smith £2 4s. 5d, from Jones £16 3s. 2d., which with discount, 4s. 3d., closes my account against him. I receive from the Bank £45 10s., and pay wages £36 6s. 8d., Salaries £5, Petty Cash £2, Robinson £5, after deducting 10s. 11d. discount from his account.

Enter these transactions in the Cash Book, and post to the Ledger.

9. What impersonal accounts are involved in the above question?

10. How would you set to work to prepare a Profit and Loss Account for a period, and a Balance-sheet at the close of it?

AUDITING.

1. State shortly the object of, and benefit to be derived from an independent professional Audit.

2. Against what has an Auditor to be particularly on his guard in order to render his Audit complete and effectual?

3. What is the difference between Capital and Revenue? Give examples.

4. Give an example of a Balance-sheet and Profit and Loss Account of a Discount Company, Limited.

5. What are the most important Books and Documents for an Auditor to examine and inspect; and why?

6. Define the terms "Liabilities" and "Assets." What are included therein? State on which sides of the Balance-sheet they should be respectively placed, giving reasons.

7. Describe the correct method of auditing and verifying the Cash and Banking Accounts of a Business.

8. What is understood by the term "Rebate of Interest on Bills not due" in a Banker's Books and Balance-sheet; and how is the item treated and dealt with in the same?

9. How should "Stock-in-Trade" be taken, and how dealt with in the Books and Balance-sheet of a Business?

10. Describe fully the difference between a Share and a Debenture.

BANKRUPTCY AND COMPANY LAW.

1. What acts will constitute a ground for Adjudication in Bankruptcy against a trader which would not support Adjudication against a non-trader?

2. What are the rights of a landlord, whose tenant has become bankrupt, as to the exercise of the remedy of distress in the following cases:—

(*a*) As to rent due before the commencement of the Bankruptcy of the tenant?

(*b*) As to rent which has since accrued due?

3. What is the position, as to participation in dividends, of a creditor whose debt is proved in a Bankruptcy after the declaration of a first or subsequent dividend?

4. What general and special obligations are imposed by the Bankruptcy Act upon a Trustee in Bankruptcy with reference to the Committee of Inspection, where such a Committee is appointed?

5. In what important feature, affecting the ownership of the debtor's property, do proceedings in Bankruptcy, and for Liquidation by Arrangement, differ from proceedings for Composition with Creditors instituted under the 126th Section of the Bankruptcy Act 1869?

6. Within what limits, and by what mode of proceeding, may the Memorandum of Association of a Joint-Stock Company be modified?

7. In what event are past members of a Joint-Stock Company declared by the Companies Act 1862 to be liable to contribute to its assets in the event of the Company being wound-up? and what limitations to their liability does the Statute prescribe?

8. A contract made preparatory to the incorporation of a Joint-Stock Company contains a provision that one hundred fully paid-up shares shall be allotted to A.B., without payment by him. What step should be taken, and when, in the interests of A.B., in connection with the carrying out of this arrangement? and what will be the consequence of omitting to take it?

9. What constitutes a "Special Resolution" within the meaning of the Companies Act 1862?

10. Enumerate three of the different conditions of circumstances in which the Court may order a Joint-Stock Company to be wound-up.

THE RIGHTS AND DUTIES OF LIQUIDATORS, TRUSTEES, AND RECEIVERS.

1. How is a Trustee appointed?

2. When does a Trustee become entitled to enter upon the duties of his office?

3. How ought the accounts of a Trustee to be audited?
4. What ought a Trustee to do with moneys which he receives in his capacity as trustee?
5. How is a Trustee to obtain his release?

[The above 5 questions apply to Liquidation, as well as to Bankruptcy proceedings, and must be answered accordingly.

6. How is an Official Liquidator appointed in a Company winding-up compulsorily?
7. How must an Official Liquidator deal with the funds of the Company when received?
8. How are the accounts of an Official Liquidator audited?
9. What must an Official Liquidator do to obtain the dissolution of the Company which he has been winding-up?
10. State the course which would be pursued for the same purpose by a Liquidator under a voluntary winding-up.

THE ADJUSTMENT OF PARTNERSHIP AND EXECUTORSHIP ACCOUNTS.

1. What books should Executors keep? Should they keep a Banking Account?
2. A Partner is robbed of money belonging to the Partnership. Is he responsible to replace it?
3. A Partner draws out £2,000 from the Partnership, and replaces it in a week. Should he be charged with interest? —if so, at what rate?
4. If two persons are in Partnership, and one dies, does the Partnership property belong to the survivor?
5. A. and B. enter enter into Partnership. A., who manages the business, is to have a salary of £500 a year, and the profits to be divided equally. A loss of over £100 is made the first year, Is A. entitled to the £500?
6. If Executors or Trustees under a Will employ an Accountant to keep the Trust accounts, can they charge the expense to the estate?
7. Articles of Partnership are drawn up and agreed to between two Partners—are they binding on the Partners if signed by only one Partner, or if not signed by either Partner?
8. Three persons enter into Partnership without any written agreement. Can two of them settle as to the share of profits the other is to receive?

MERCANTILE LAW, AND THE LAW OF ARBITRATIONS AND AWARDS.

1. What constitutes a legal tender? Under what circumstances is a tender to an agent equivalent to a tender to the principal?
2. In the case of a contract for the sale of goods of a value exceeding £10, is it necessary in every case, in order to create a contract binding on the purchaser, that the contract should be in writing? Give the reasons for your answer.
3. What is meant by a general lien? In what ways can it be created?
4. In the case of a contract for the sale of goods by sample, what are the rights and duties of the vendee if goods are delivered not up to sample? Where a vendor has warranted goods of a certain quality, what are the rights and duties of the vendee if goods are delivered of interior quality?
5. Explain, giving an illustration of (1) Lex mercatoris (2) Negotiable instrument (3) Market overt (4) Stoppage in transit. And explain "Appropriation of payments," 63 64ths of a ship."
6. A. and B. verbally agree to refer all matters in dispute betweed them to C., and to perform his award. C. hears evidence on both sides for five days; and on the sixth, A. revokes his agreement to refer, and gives notice of the fact to C. C. nevertheless makes his award. Is the award binding on A.? Give the reasons for your answer.
7. A. and B. refer a dispute about some hay to C. The submission is made a rule of Court. Within what time must C. make his award? and what is the effect of his making it out of time? Under what circumstances can the time for making the award be extended?
8. Where a dispute is referred to two arbitrators, what power have they, apart from Statute, of appointing an umpire? What power of appointing an umpire is given them by the Common Law Procedure Act, 1854? and within what time must they exercise it?
9. Under what circumstances can an arbitrator proceed with an arbitration *ex parte?*
10. What power has an arbitrator to award payment of (1) the costs of a cause referred to him; (2) the costs of a reference before him, and of his award? What is the effect of an arbitrator awarding payment of costs when he has no power to do so?

FINAL EXAMINATION.—June 1883.

BOOKKEEPING.

1. Define what an Account is?
2. What is the distinction between "gross" and "net" Profit or Loss? Give examples of Accounts resulting in each.
3. Give a clear and concise definition of the principle and object of Bookkeeping by Double Entry.
4. Define the nature and use of Bills. Give examples of a Bill and Promissory Note; also of a Bills receivable and Bills payable Account, each resulting in a balance.
5. Give an example of a Cash Account balanced off, framed with Bankers,' Cash, and Discount columns.
6. What is understood by the term "Capital?" Give an example of a Capital Account.
7. A. and B. enter into a joint Adventure (each half) in Wool from Adelaide to London; A. to act as manager in all the transactions, B. depositing with him in the first instance £5,000. Raise, from the following entries, the necessary Accounts in A.'s Books from the beginning to the close of the Adventure, including final settlement with X. Y. and Co. and B.:—

	£	s.	d.
Remitted X. Y. and Co., of Adelaide, on account of purchase of Wool	10,000	0	0
Cost of Wool purchased by X. Y. and Co. in Adelaide	13,500	0	0
Charges paid..	750	0	0
Insurance ditto	300	0	0
Proceeds of Sale of Wool in London ..	15,750	0	0

8. Give an example of a Balance Sheet drawn up in accordance with the requirements of the Companies Act 1862. p. 63
9. What constitutes that which is known as a "Trial Balance, and wherein does this differ from a Balance Sheet?
10. Raise the necessary Accounts, and prepare Balance Sheet and Profit and Loss Account, from the following entries:—

	£	s.	d.	£	s.	d.
Assets at commencement, viz.						
Cash..	£2,500	0	0			
Goods	3,000	0	0			
				5,500	0	0
Liability do. to H. Boyd ..				1,000	0	0
Bought of Wilkinson & Co. "Goods" ..				2,000	0	0
Cash paid to H. Boyd on account				500	0	0
do. Wilkinson & Co. do.				750	0	0

Accepted Wilkinson & Co.'s Draft at 3 months	600	0	0
Bought for Cash "Goods" amounting to ..	1,018	6	0
Sold to Hall & Co., "Goods"	2,500	0	0
Received from Hall & Co., Cash on account.	1,700	0	0
Sold to Brown, "Goods"	3,036	14	6
Received from Brown, Cash on account ..	750	0	0
do. Acceptance at 3 months	1,500	0	0
Cash drawings for private purposes	550	0	0
do. paid for Charges, Rent, Salaries, &c...	633	16	4
Bought 1000 Great Northern Railway Stock at 122 per cent.			
Sold 1000 do. do. 188 per cent.			
Stock and Goods on hand as per Inventory and Valuation	1,893	0	0

AUDITING.

1. What is an Auditor? What are his duties and responsibilities? To what does he render himself liable by incomplete or unfaithful work?

2. Is an Audit complete without checking all the postings in the books during the period? When may this be safely dispensed with?

3. A set of Partnership Books is given you to balance, to draw a Profit and Loss Account and Balance Sheet, and audit. Amongst other open accounts you find balances to the debit of—(i.) Wages, (ii.) Partner Jones' Withdrawals, (iii.) Interest and Discount, (iv.) Cash; and to the credit of—(v.) Sales, (vi.) Depreciation, (vii.) Partner Smith's Capital, and (viii.) Bankers. State how you would deal with these *seriatim*.

4. What special inquires ought you to make about the following accounts, mentioned in the last question,—viz., (ii.), (vi.), vii.), and (viii.)?

5. State some of the ways in which the Profits of a Company are sometimes made to look larger than they really are, and the Auditor's duty in such cases.

6. When a Reserve Fund of a Company is invested in its Plant, what does it practically become, and how should it be dealt with?

7. What is your duty with regard to Stocks and other securities held by an Insurance Company at the time of Audit?

8. What should you do with the Stock Sheets of a manufacturing concern at a "Stock-taking"?

9. A partner in a firm having control of the books absconded. It was found that he had withdrawn large sums, and placed the amounts to a separate account in his own name, the balance of which appeared amongst Sundry Debtors. The accounts were audited annually. His partner, placing too much confidence in him, only examined the balance sheet, and not the details. What error of principle was committed, and how did the Auditor fail in his duty? What is the fundamental principle in Partnership Accounts with reference to the Accounts of the Partners and the balance sheet of the fim?

10. Criticise the following Balance Sheet. Does it convey sufficient information to enable you to form a proper estimate of the position of the Company and its working? If not, what further particulars would you require?

Liabilities.

	£	s.	d.
Capital subscribed and paid up	£99,997	10	0
Shares issued to vendors and patentees	72,500	0	0
	172,497	10	[illegible]
Creditors..	3,657	13	1
Sales of concessions and patents	30,000	0	[illegible]
£2[illegible]			

Assets.

Patents	£113,819	15	0			
Parliamentary expenses ..	923	7	0			
Shares in other Companies..	19,625	0	0			
				134,368	2	0
Machinery and Stock.. ..	21,372	12	8			
Lease and Furniture	2,392	16	9			
				23,765	9	5
Debtors	14,456	12	5			
Cash at Bankers	783	6	10			
				15,230	19	3
Net expenditure for year to 31st March, 1882 ..	16,302	14	1			
Ditto for year to March, 1883	16,478	19	2			
				32,781	13	3
				£206,155	3	11

BANKRUPTCY AND COMPANY LAW.

1. How far may Foreigners, Infants, Married Women, Lunatics, Members of Parliament, Peers, and Joint-Stock Companies be made bankrupt?

2, What are the requisites for a good Petitioning Creditor's Debt?

3. In what respects does a Trustee take higher rights than the Debtor himself possessed? Where, and how, ought a Trustee's right's to be enforced?

4. What is the effect of a Disclaimer by a trustee upon his rights to the property comprised in such disclaimer? How are the rights of other persons taken into consideration and provided for?

5. What are the duties of the Registrar with reference to the registration of Resolutions for Composition or Liquidation, or for a scheme of Arrangement, under the 28th section of the Bankruptcy Act respectively? Upon what grounds may registration of any such Resolutions respectively be refused?

6. To what extent, and how, may the Memorandum and Articles of a Limited and Unlimited Company respectively be altered by the Members? How far are any dealings or transactions of a Company valid which exceed the powers conferred by the Memorandum and Articles respectively?

7. What information must be contained in the Register of Members? What provisions are contained in the Act to ensure a perfect Register, and what is the effect of its being imperfect?

8. What is the "B." list of Contributories? When may it be settled? What are the liabilities of the "B" Contributories, and how are their contributions applied?

9. What is the commencement of the Winding-up when it is compulsory, voluntary, and under supervision, respectively?

10. What are the Rules of Set-off applicable in Bankruptcy and in the Winding-up of a Limited and Unlimited Company respectively?

11. What does the Court have regard to in making an Order upon a Petition for the Winding-up of a Company? What are the grounds upon which a Company may be wound up by the Court?

[illegible]GHTS AND DUTIES OF TRUSTEES, [illegible]IDATORS, AND RECEIVERS.

[illegible]se should be taken in examining the Bankrupt's Estate.

2. What ought to be taken into account in calculating the amount of a proposed Dividend?

3. State the powers which a trustee can exercise without the sanction of the Committee of Inspection.

4. State what acts of a Trustee require the sanction of a Committee of Inspection.

5. If no Committee of Inspection has been appointed, in in what way is a Trustee to obtain any necessary sanction for his acts?

6. In compromising with a Contributory under a Voluntary Winding-up, what should be done by the Liquidator in order to render such compromise binding?

7. Is an Official Liquidator liable for debts incurred in carrying on the business of the company after an Order for Winding-up has been made?

8. Give a statement of such debts due at the date of the Order to Wind up a Company as ought to be paid in full.

9. Ought a liquidator to allow the books of a Company to be inspected; and, if so, to what extent?

10. What course ought a Liquidator to take as to the settlement of the List of Contributories under a Voluntary and also under a Supervisional Winding-up?

THE ADJUSTMENT OF PARTNERSHIP AND EXECUTORSHIP ACCOUNTS.

1. A. and B. enter into partnership, and C., the father of A., agrees to provide a capital of £1000; C. pays £1000 to A., who pays it to the partnership. To whose credit should the money go in the partnership books?

2. A partner, without the consent of his co-partner, speculates with the partnership moneys. In one speculation he makes £100, which he pays into the partnership; in another speculation he loses £150, which he draws out of the partnership. How would you deal with these two sums in the partnership books?

3. Two persons in partnership invest £1000 in shares in a company; one dies, and six months after his death the company, being insolvent, is wound up, and a call of £1000 is made on the shares and paid by the surviving partner. Can this be charged to the partnership?

4. One of two executors draws from the Joint Trust Account, with the consent of his co-executor, £2,000, with which he speculates on the Stock Exchange. He replaces the money in six months. Is he chargeable as respects the money? If so, how?

5. A partner takes £1,000 in coin to pay wages for the partnership, and accidently leaves the money in a railway carriage and it is lost. To what account would you charge the £1,000?

6. A. and B. in partnership are owed £1000 by C., who is known to both parties to be insolvent, on a Bill of Exchange. A. dies before the Bill becomes due; B. renews for [illegible] by providing C. with the money to meet t[illegible] charges interest. Before the renewed Bill be[illegible] becomes bankrupt and pays no dividend. [illegible] chargeable to the partnership?

7. A. and B. enter into partnership w[illegible] ment. A. brings in £1000, and B. £500 [illegible] made, and B. dies. Divide the profit [illegible]

8. A Trustee under a Will, being short of funds, paid a Legatee, to whom £1000 was left, £50 a year as interest for 2 years from the death, and then paid the legacy in full. To what account would you debit the two payments of £50 each?

MERCANTILE LAW AND THE LAW OF ARBITRATION AND AWARDS.

1. Give the title, and some short particulars, of the last Act passed relating to Bills of Exchange.

2. State if in your opinion this Act of Parliament has made any alteration in the Law.

3. What is the effect of (i.) The Bankruptcy of the drawer upon the acceptor of a Bill of Exchange, as far as regards his liability to the holder? (ii.) The Bankruptcy of the acceptor upon the drawer of a Bill of Exchange, as far as regards his liability to the holder?

4. Is there any class of persons who cannot own British Ships?

5. What advantage has the owner of a registered vessel over the owner of an unregistered vessel in the case of collision when his vessel is to blame?

6. Give the date, and some particulars, of the provisions of the Statute called the Statute of Frauds.

7. A., B., and C. carry on business as East India Merchants. Must there be a Partnership Deed to constitute a partnership between them?

8. C. accepts a Bill in the name of the firm. When is this binding upon the firm? When is it not?

9. It is usual in Agreements to insert a clause providing for disputes. Has this clause any special name? Give the general effect of it.

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BOOKKEEPING.

Double Entry—continued.

In double entry there are two classes of books of account in general use. They are usually called "principal" books and "subsidiary" books. "Principal" books are those whence postings are made direct to the ledger; "subsidiary" books are those which are used to simplify the labour of aggregating items in the "principal" books. Either of such class of books may be a book of original entry, *i.e.* a book in which the original record is made of a particular transaction. It is important to understand the distinction between an entry and a posting. The former is a record (original or otherwise) of a transaction, the latter is the conveyance of that record to the ledger. As a general rule it is desirable to post from original entries, but this cannot always be done; or rather the labour entailed would not be commensurate with the result. Every entry, however small, and its *contra* (with the exception of cash *contras*, as hereafter explained) must reach the ledger, otherwise a true balance would be impossible. The object of every skilled bookkeeper therefore is to ensure each item, or aggregation of items, reaching its or their destination in the ledger, and at the same time to reduce as much as possible the labour consequent thereon. As an instance, we may take a petty cash book involving during a month many payments, both for accounts of customers or clients and also for various accounts relating to the business, such as office expenses, carriage, postage, &c. It is obvious that if each item were posted, the labour would in such cases be very great, whereas by a monthly analysis we are enabled to bring under the heading of each account the whole month's disbursements in respect thereof. Such analysis can either be utilised for posting direct from the petty cash-book, or it can be copied into the "journal." In the former case the petty cash-book would be an original book of entry, and form one of the volumes constituting "the journal" or principal book; in the latter case it would, although still an original book of entry, be only a subsidiary book because it would not be used for posting purposes.

Principal Books of Account.

There are only two principal books of account, viz., Cash Book and Journal. The other, and in one sense all important book (*i.e.* the Ledger) is in double entry *not a book of account*, but an "indiced analysis," because nothing should appear therein as an entry, but only as the result of a posting. In asserting that there are only *two* principal books of account, it is not to be supposed that such assertion is to be construed literally. Shakespeare may be bought in one binding or in many volumes, but in either case we can only have Shakespeare. So with a Cash Book, one may suffice in one instance, whereas a dozen books may be required in another case to make the "Cash Book." A firm may have, say, four banking accounts, and for convenience keep each account in a separate book. In such a case the four books together would only constitute "the Cash Book"; or the four banking accounts may be kept in one cash-book, with a separate debit and credit column for each bank. In the latter event, the cash book is just as much divided into four parts as if it were made up under four separate volumes. This method of adopting distinct columns for each banking account, and of making them independent of the others, is somewhat puzzling to beginners *until they take the trouble to think*, and then they are surprised that they did not think of it themselves. One has but to think that each account (Dr. and Cr.) represents a separate money till, that whenever money is withdrawn from a particular till credit is taken for the payment out, that the till is debited with any money paid in. The banks (or tills) we will call Nos. 1 to 4. £100 is withdrawn from No. 1, of which £50 is paid into No. 2 and £25 each to Nos. 3 and 4. It is clear that No. 1 is entitled to credit for the withdrawal of the £100, and it is equally clear that Nos. 2, 3, and 4 are chargeable with their respective receipts. Supposing that a fifth till exists in the shape of a cash box, represented by a "House Column," the same principle applies. This idea once grasped we find no difficulty in applying it to every-day work, and the simplification of labour and avoidance of confusion produced by adopting it is remarkable. Some bookkeepers adopt separate columns for discount and for bills receivable, thus practically treating the latter as cash. As a strict matter of fact, even a discount for cash is not cash, *i.e.* we do not pay say £100 with the one hand, and receive say £50 with the other, but in consideration of payment of £95 within a specified time we are excused from the payment of the balance. Strictly speaking, therefore, discount is a journal, rather than a cash entry. Nevertheless our object is to study the economy of space and of labour, so if we find the discounts are numerous, we sacrifice the space in order to economise the labour, and insert a discount

column in the cash book. Perhaps the discounts are all one way, say on our payments. In that case we should have a discount column on the credit side only; but where discounts are the exception the sacrifice of space is inexcusable. But with regard to bills receivable, no excuse exists for having columns for them in the Cash Book. We have but to consider what a bill receivable is in order to arrive at this conclusion. It is an acknowledgment of indebtedness to the trader or some third party, and a promise to pay on some particular date.

JOINT STOCK COMPANIES—(*continued*).

Every limited Banking Company, and every Insurance Company, and every Deposit Provident or Benefit Society under this Act, before it commences business, must make a statement in the following form, or as near it as possible—the amount, of course, being only filled in for illustration:—

The capital of the company is £10,000, divided into 1,000 shares of £10 each. The number of shares issued is 850. Calls to the amount of £2 per share have been made, under which the sum of £1,700 has been received.

The liabilities of the company on the first day of January 1883 were debts owing to sundry persons by the Company:—
On Judgment £
On Specialty £
On Notes or Bills £
On Simple Contracts £
On Estimated Liabilities £

The Assets of the Company on that date were:—
Government Securities £
(The nature of these securities is to be stated.)
Bills of Exchange and Promissory Notes £
Cash at the Bankers £
Other Securities £

The above statement is to be made on starting, and, after commencing business, statements must be rendered on the first Monday in February and August in every year during which the company is in existence, and a copy must be posted up in a prominent place in the company's head office and in every branch office of the company's business. Every member and creditor who requires a copy can have one on payment of 6d. Every company, as well as every director or manager personally, incurs a penalty of £5 for every day during which the above requirement remains unfulfilled. As the greater part of the business of a company, whether limited or not, is usually carried on by means of bills of exchange, with the occasional use of promissory notes, it is necessary to know in such matters who is the responsible party to bind the company by his acceptance on their behalf; and in order to put this matter on a proper footing and to fix the liability, the Act provides as follows, that "a promissory note or bill of exchange shall be deemed to have been made, accepted, or endorsed on behalf of any company under this Act, if made, accepted, or endorsed in the name of the company by any person acting under the authority of the company, or if made, accepted, or if endorsed by or on behalf or on account of the company, by any person acting under the authority of the company." It would appear from this clause that the company can accept or endorse a bill in its own name if such name is written by any person acting under the authority of the company, and that the name of the company would be a sufficient acceptance or endorsement of a bill, such as "The Wagon Coal Co.;" but as an actual matter of business it would be found preferable for the authorised person (whoever that may be) to accept or endorse in the name of the company, and sign his own name; for example, "for the Wigan Coal Company, and by its authority, James Smith." The liability would then be fixed, as the company could not repudiate the act of their authorised agent. Any company under this Act may alter any of the articles of association by a *special resolution* passed at a general meeting. By special resolution is meant a resolution which must be passed at a general meeting: the notice calling such meeting must specify that it is intended to propose the resolution in question, and the motion when made must be carried by three-fourths of the members present either personally or by proxy who are entitled to vote. In fourteen days, or within a month afterwards, another general meeting must be called, by giving the usual notice to all the members, and the resolution must be confirmed by a majority of the members present either personally or by proxy who are entitled to vote. The vote in this case would be taken by show of hands in the usual way, but if five or more members demanded a poll it would have to be accorded. In the event of a poll not being demanded the declaration of the chairman of the meeting as to the result would be conclusive.

In the absence of any provisions in the articles of association for the calling of such meeting, &c., a notice of seven days would be sufficient for the purpose; and the chairman is to be elected by the members present if there is no permanent chairman appointed by the regulations of the company. A copy of any special resolution passed by a company under this Act must be sent to the registrar within fifteen days of the second meeting called to confirm such special resolution, and the company is liable to a penalty of £2 for every day during which it omits to do so, and so is every director and manager of the company who allows such omission. A copy of every resolution passed in the manner described must be annexed to every copy of the articles of association that is issued by the company, and a copy of such resolution may be obtained by any member applying for it on payment of one shilling. If the company wishes to execute any deed out of the United Kingdom, and does not wish to part with its seal for such purpose, it can appoint an attorney under its seal, who can then execute the deed for them and use his own seal for the purpose. If a number of shareholders wish to examine the affairs of the company they must make application to the Board of Trade, who will appoint one or more persons to make the examination, and the application will be acceded to under the following conditions:

(1) In case of a Banking Company with shares, upon the application of the holders of one-third of the shares.

(2) In the case of any other company with shares, upon the application of the holders of one-fifth of the shares.

(3) In the case of a company without shares, upon the application of one-fifth of the members.

Letters to the Editor.

ANSWER TO QUESTIONS SET AT LAST EXAMIATION.

To the Editor of the Accountants' Students' Journal.

SIR,—In looking through the answers to the Arithmetic Questions (set for the Preliminary Examination held in June last) published in your paper, I noticed the working of No. 1 to be as I thought peculiar, viz.

$$\frac{\frac{1}{7}+\frac{1}{11}+\frac{1}{13}}{\frac{1}{7}+\frac{1}{11}+\frac{1}{13}} = \frac{143+91+77}{142+91-77} = \frac{311}{157} = 1\,\frac{154}{157}$$ Ans.

7. 11. 13 = 1001.

I should be very much obliged if you would kindly explain the figures underlined (*i.e.* why the + becomes —).

Hoping you will not consider this presumption on my part, and trusting to hear from you at your early convenience,

Yours, &c.

F. COOK.

London, 14th August, 1883.

[This question was unfortunately printed wrongly in our issue of July.

It should have been $\frac{\frac{1}{7}+\frac{1}{11}+\frac{1}{13}}{\frac{1}{7}+\frac{1}{11}-\frac{1}{13}}$

The answer given will be found correct to the amended questions.—ED.]

Answers to Questions at Last Examination.

To the Editor of the Accountants' Students' Journal.

Sir,—In looking over the Answer to the Questions in Arithmetic (Preliminary Examination, June, 1883), I notice that to question No. 6 is appended a foot note showing the "shortest method" of reducing sterling value to the decimal. Believing that the following is a much quicker way, and possessing the decided advantage of being able to be performed mentally, I send you the working for the benefit of all whom it may concern.

Example, £2 17s. 6¾d. Mentally state the fraction of a penny in decimals, and halve it; then multiply by 5, beginning at the shillings, and divide by 12, thus

$2 \cdot 17 \cdot 6\frac{75}{375}$

5

2.85 $5 \times 6 = 30$

2 $\frac{30}{12} = 2{,}6$

8125

375

2·878125

975

$\frac{975}{12} = 8125$

Yours, &c.

J. L. McI., C.A

Barrow-in-Furness,
6th August, 1883.

Answer to Examination Questions.

To the Editor of the Accountants' Students' Journal.

Sir,—Your correspondent J. L. McI., C.A., appears to object to my "Shortest Method" of turning currency into decimals, and proposes an alternative way. His method required 41 figures, mine took 19 only. He thinks his is a "much quicker way," but as it requires double the number of figures, while the operation passes from multiplication to division, interspersed with additions, and my way consists of divisions only, the superiority of his method as regards speed is not apparent. He claims an advantage for his method that it may be performed mentally. I cannot see that his elucidation or illustration show this. It is not sound mental exercise to consider 30 divided by 12 as producing 2, 6. A simpler mental method, would be to remember that the decimal of 1d. is .00416 and of 1s. is .05, then by inspection of a given decimal any one could easily see how my shillings and pence were required to multiply these roots up to the given figures. Yours, &c.

Sigma.

13th August, 1883.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

At a special meeting of the Council, held at the offices of the Institute, 3, Copthall Buildings, on the 1st August, there were present:—Messrs. Arthur Cooper, President (in the chair), J. W. Barber, J. C. Bolton, T. Browning, G. A. Cape, E. Carter, W. Cash, A. W. Chambers, J. Davies, W. N. Fisher, E. Guthrie, A. C. Harper, E. Hart, G. W. Knox, G. H. Ladbury, F. Nicholls, H. G. Nicholson, T. G. Shuttleworth, J. H. Tilley, J. Waddell, C. H. Wade, T. A. Welton.

Henry Thomas Bird, 4, Great George-street, Westminster, S.W., was admitted Associate of the Institute under section 14 of the Charter.

At the ordinary meeting of the Council, held at the conclusion of the above,

The following Associates were elected Fellows of the Institute:—Philip Shuttleworth Darnell, A.C.A., 1, Clement's Inn, W.C.; Allen Edwards, A.C.A., 82, New-street, Birmingham; Titus Thorp, A.C.A.. 1, Lune-street, Preston.

The following were admitted Fellows of the Institute:—Joseph Samuel Colefax, Daily Telegraph Buildings, Bradford; John Henry Hill Duncan, 41, Coleman-street, E.C.

The following were admitted Associates of the Institute:—Frederick William Allen, 7 and 8, Railway Approach, London Bridge, S.E.; Thomas Bee, 13, Chapel-street, Preston; Edwin Playster Steeds, 20, Friar-lane, Leicester; William Frank Allvey, clerk to W. Westcott and Co., 35, Coleman-street, E.C.; Arthur Charles Bourner, clerk to Mellors and Basden, Britannia Chambers, Pelham-street, Nottingham; David Lockhart Chalmers, clerk to Chalmers and Wade, 5, Fenwick-street, Liverpool; Frank Davies, clerk to Y. W. Houghton, 35, Waterloo-street, Birmingham; Wilson Franks, clerk to Joseph Nicholson, Whitehaven; William Horracks, clerk to Broome, Murray and Co., 104, King-street, Manchester; John Heny Jenks, clerk to Gane and Jackson, 53, Coleman-street, E.C.; Edward Lintott, clerk to G. H. Carter, 1, Queen-street., E.C.; George Pepler Norton, clerk to Armitage, Clough and Co., 23, John William-street, Huddersfield; Thomas Rollason, clerk to Carter and Carter, 33, Waterloo-street, Birmingham.

The Secretary reported the resignation of Mr. A. Hughes, A.C.A., which was accepted by the Council.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY

(Continued from No. 4, p. 76.)

If the legacy be not free of duty the account should be forwarded to the controller before the legacy is paid, as the duty must be deducted from the amount, or if it is a specific bequest obtained from the legatee, and it is not wise excepting in very simple legacies to assume the accuacy of the account until it is passed.

Particular attention is required to the penalties to which any person is liable for paying and receiving any legacy liable to duty without taking and signing the proper receipt, or for not paying the duty within due time from the date of the receipt.

The same principle applies to legacies as to residue, viz., that all income derived from the legacy to the date of payment of duty must be added to the legacy and duty paid thereon. In theory the commissioners are entitled to duty at the death, and if payment is delayed, they claim duty on interest or dividends to recoup to them interest on the duty for the time it has remained unpaid.

No. 2. The annuity receipt requires the same particulars as the legacy receipts respecting the testator and the executors, but the particulars respecting the benefits derived are different. In this account you are required to give the following particulars, viz.:—

1. "Name of the annuitant, with the name and age of the life or lives, or the number of years for which the annuity is to endure." 2. "Degree of relationship, if any." 3. "Amount of Annuity." 4. "Age or ages or number of years when annuity commenced." 5. "Value of the annuity." 6. "Rate of duty." 7. "Amount of duty."

The object here is to ascertain the present value of the annuity whether held for one or more lives, and then to charge duty upon this present value acoording to the degree of relationship, as if it were a capital sum bequeathed to the annuitant. For this purpose the age of the annuitant or annuitants is required, and the amount of the annuity. A reference to Tables I. II. and III. contained in the schedule to the Succession Duty Act will show the value of an annuity for a single life of any age, or of an annuity held on the joint continuance of two lives, or of an annuity for any number of years; but as the continuance of the life is uncertain, and duty upon the capital value would make a serious inroad into the annuity for the first year, if it did not exceed the amount of it the commissioners accept

payment of the duty by four equal annual instalments, and if the annuitant should die before all the instalments are paid, the unpaid instalments will lapse, but notice of the death must be communicated to the controller. The executors will set out the amount of the 18 years' annuity, and having obtained or deducted the first payment of duty, will take a receipt for the balance, and will fill up similar receipt forms until all instalments of the duty are paid.

No. 4 is for property chargeable under the Succession Duty Act, though still relating to personal estate. A succession may arise in so many ways that nothing but a most careful study of the Act will enable you to deal with these really difficult accounts. A very useful little book has been published by Mr. Alfred Layton, of the firm of Waterlow Bros. and Layton, which will well repay perusal. The title is "Suggestions for the Preparation of Succession Accounts." I will mention an instance which recently occurred in my own practice which will illustrate the use of this form No. 4, and at the same time the complications which may affect questions of succession.

J. B. had after his marriage made a voluntary settlement under which the income of the settled property was payable to himself for his life, then to his wife if she should survive him, and upon the death of both himself and his wife, the principal of the fund was to be divided amongst his children. During the life of the testator one of his sons died, a bachelor and intestate, having attained twenty-one years of age. Thus the father became entitled as heir in law to his son's share of the settled property, subject to the life estate of himself and his wife. J. B. died before his wife, and upon her death the residue of his estate passed under his will to his two daughters. The settled funds became at the same time divisible amongst his children, but one son's share had reverted to J.B., and thus became subject to the trusts of his will and passed to the daughters as part of residue. Now what duties were payable on the settled funds, and particularly upon the share of the son who died intestate? Upon the shares of the other children succession duty was payable upon the capital value upon form No. 4, this being an absolute succession, but duty being payable under the Succession Duty Act, instead of under the Legacy Duty Act, inasmuch as the benefit arose under a succession and not under a will. But in the share of the son who died, there was a succession from the father to the son, and a reversion from the son back to the father, and the Inland Revenue Office claimed that inasmuch as the son had acquired a vested interest, and this had reverted to the father, two beneficial interests had arisen, and duty must be paid on each, viz., succession duty upon the value of the son's interest at the time of his death, and legacy duty upon the same value for the interest acquired by the father under the son's intestacy. I however induced the office to consider their demand, and finally to abandon their claim to succession duty payable out of the son's estate, on the ground that, although the son was entitled to a succession, he had never become entitled in possession. It may be instructive to mention that in this case letters of administration were required to the son's estate, although it consisted solely of this succession, so that the Revenue claimed upon property which actually passed from the parents direct to the daughters the following duties:— 1. Succession duty payable by the son. 2. Duty upon administration of the son's estate. 3. Legacy duty from the father under the administration. 4. Duty upon probate of the father's will. 5. Legacy duty from the daughters: and actually received all but the first-named. The duties payable under the son's intestacy were calculated upon the amount of the funds after deducting the value at that time of the life estate of the two parents, while the duties payable under the father's will were calculated upon the total value of the settled funds.

The duty upon form No. 4 is payable when the property is paid to or retained for the suocessor. Form No. 5, Annuity, is for "succession" duty for life interest in personal property.

I can best explain the use of this form by a simple illustration. Say a settlement has been made under which the settler takes a first life estate, and that a second life estate is created upon his death, the principal fund being divisible upon the termination of the second life estate. Duty on the second life estate would be payable upon the present value of an annuity to a person of the age of the successor upon form No. 5, and when the principal sum became divisible duty would be payable on the capital sum in form No. 4. Duty on form No. 5 is payable by four equal yearly instalments, the first to be paid twelve months after possession.

If you are in any doubt, or if there is any complication in these accounts, do not hesitate to confer with the solicitor.

The accountant's brains get a professional twist in one direction, and the solicitor's in another, and they may mutually help each other; but they are not competitors, and need never fear to ask or accept assistance from each other.

I have now only to speak of forms Nos. 6 and 7, provided for payment of succession duty on real property, which includes (as you are told at the head of the form) all freehold, copyhold, customary, leasehold, and other hereditaments, whether corporeal or incorporeal.

First insert the reference to the register, which, in this case, is to the books of the year when the death occurs by which the succession opens, and not as in the forms under the Legacy Duty Act to the books of the year when the grant of probate was obtained. Then insert the name and description of the successor and the name of the person upon whose death the succession arises, the date of his death, and the name of the predecessor, stating whether the succession arises under settlement, will, intestacy, or by descent, and, if under any deed or other document, state the date thereof and the names of the parties thereto. You must also state by whom the account is delivered, and whether he be trustee or successor.

You will see from this heading that the person upon whose death the succession arises is not necessarily the predecessor. For instance, if A. bequeaths real estate to B. then the succession arises upon A.'s death, and he also is the predecessor; but if A. bequeaths real estate to B. for life and upon his death to C., then the succession arising from B.'s death is derived not from B. but from A. the original testator.

Then follows the body of the account, spaces being provided for:—1. Description of the property. 2. Saleable value. 3. Gross rack rental or annual value.

A side-note requires you to state whether the property is let on lease, and whether on rack rent, or at a ground rent, or in consideration of a premium (in which last two cases further duty will be payable on the determination of the lease).

You must please bear in mind that duty is paid on real estate by way of annuity, that is to say, it is assumed that, whether the bequest be absolute or only for life, the successor derives the benefit of the net annual income for his expectation of life according to the Government tables. Hence the Revenue reqnire to know the precise character of the property, and the conditions under which it produces an income, to ascertain if the successor is paying duty on the full benefit which he will derive from the succession; and if any portion of the annual value has been temporarily alienated under a lease or in consideration of a premium paid at the commencement of a tenancy, then further duty will be payable—not immediately, because the successor may not live until the annual value is enhanced, but when that takes place at the expiration of the lease—the further duty being paid upon the value of the annual increase for a life of the age of the successor when the increase arises.

To insure accuracy in the description of the property, a reference to deeds may be necessary; and I should advise, as a general practice, that the description be obtained from

the solicitor. The saleable value need not be appraised by a valuer, but may be stated at so many years' purchase of the annual value. This column appears to be provided for cases where a property, although of considerable marketable value, is only productive to a small extent. The gross rack rental is the important amount in this account.

I need scarcely suggest that the properties be classified, if they are of various kinds.

The deductions which are allowed are:—1. Necessary outgoings in case the same are payable *by the owner* and *not by the tenant*, under four headings, viz., chief or ground rent; land tax unredeemed; fire insurance; repairs. 2. Annuities, if any, to which the property is subject. 3. Interest of incumbrances.

A side-note requires short particulars of the incumbrances to be given, and the names of the persons by whom they are created; and a foot-note states that no allowance can be made for contingent incumbrances, or for any incumbrance created by the successor, or for the expense of collecting rents, or for the income or property tax, or for any costs incurred in litigating the title to the property.

You will see that, as on the other side of the account there is an evident determination to make the successor liable to duty for all the property produces in the shape of income, so on this side of the account there is no intention of admitting any deduction save those which the successor is absolutely compelled to bear. The only deduction which admits of any discussion is "repairs." On this there is no hard and fast line laid down, but a moderate percentage is allowed according to the nature and condition of the property. On agricultural buildings, about 7 per cent. is allowed. On buildings and house property not exceeding ten per cent. On land, nothing, unless it be a very small amount for repairing gates and fences. You may take these as approximate percentages, but must make the best terms you can with the office, remembering that a fair but strictly moderate allowance only will be made. The column headed "capital" is for the amount of the incumbrances, and forms a deduction from the saleable value on the other side. The account is closed by a summary showing the net annual value, and is followed by a declaration giving, in addition to particulars stated at the head of the account, the date of the successor's birth, and his degree of relationship to the predecessor, Here the duty of preparing the account is at an end, but it gives it a greater appearance of completeness to fill in at the top of the fourth page the amount and value of the annuity and the rate and amount of duty. This duty is payable by eight instalments, but a discount at four per cent. per annum is allowed for repayment, and interest at the same rate is charged upon any instalments overdue. The last form, No. 7, is for second and subsequent instalments of succession duty on real property. The particulars in the heading will follow No. 6, with the addition of the date when duty was assessed, the annual value on which it was assessed, and the name of the person who delivered the account. In the body of the account must be brought forward from No. 6, the age of the successor, the value of the succession, and in the money column the amount of duty, and in the second line must be stated the amount of $\frac{1}{3}$th of the value of the succession, and in the money column $\frac{1}{3}$th of the duty.

The value of an annuity at any age will be found in the tables annexed to the Succession Duty Act, and directions for calculating the same will be found in Mr. Layton's book previously referred to, or in Mr. Phippen's Practical Advice to Executors and Trustees. This last-named book contains much useful information in a very simple and intelligent form, and although some portions of it are obsolete through recent enactments, it will well repay perusal.

I am aware my remarks have been very incomplete, but I trust that I have to some extent made myself clear to you in giving these explanations of the intention of the stamp duty accounts, and directions for filling them up. I have assumed necessarily that I have been speaking to those who have devoted some time to the study of these forms, and who have them in their mind's eye. Unfortunately, they cannot, like geometrical figures, be drawn upon a black board, so as to illustrate my explanations during my address, but I hope that you can carry away with you so much information as will simplify accounts which, if not really difficult, require very careful study and unremitting thought while they are in preparation.

I recently heard a barrister appealing to the jury to award his client his full meed of damages on the ground that they must do it once and for ever. In making up accounts under a will, you usually do it once and for ever. If by your blunder any person takes less than his proper share, he will probably never have an opportunity of discovering the error; but should an error be discovered, very awkward questions might arise as to the persons morally and legally liable to adjust it.

I had thought to enlarge to some extent upon accounts which are required to be furnished by executors and trustees in the course of proceedings in chancery in an administration suit, or any proceedings where accounts are required; but I must dismiss these with but scanty notice, as my paper has already been sufficiently long.

Hostile proceedings are comparatively rare where an accountant has been employed from the outset, as the trust accounts are then regularly kept, and the funds punctually dealt with; but friendly suits are often instituted to clear the estate of complications, and in these accounts are required.

In cases where the accountant is called in to make up the accounts in a suit, I will advise that a statement be worked up in the form which I have previously described, as this will be found not only more sure, but also a more expeditious way of obtaining the necessary information, than by endeavouring to compile a simple cash account of receipts and payments.

The Court usuallly requires to know something like the following particulars:—Of what real estate testator died possessed, and what incumbrances affected it? Of what personal estate testator died possessed? What personal estate has come to the hands of the executors, distinguish, ing receipts on account of principal from receipts on account of income? What the executors have paid out of the personal estate, distinguishing payments on accoount of principal from payments on account of income? What legacies have been paid? What legacies are unpaid? What debts due from testator are unpaid?

These particulars will be so far classified in the statement I recommend, that they can be extracted with little trouble, and a comparison of totals with the statement will show that all particulars have been included in the accounts of receipts and payments, while the ledger account with each investment mortgagor or mortgagee will show that all the periodical receipts and payments have been brought into account. Accountants are often appointed by the Court receivers in an action or administration suit, and in this capacity have to file periodical accounts of receipts and payments. These are merely cash accounts upon official forms, differing as they relate to personal estate or the rents and profits of real estate. The former is in the form of any ordinary rent roll, the latter a cash account distinguishing principal from income. The clerks to the Vice-chancellor occasionally have some little preferences as to the precise form of entries in these accounts, but in the main they are perfectly clear and simple, and such as any articled clerk of two year's standing would easily make up. At the risk of repetition, I again commend to your careful study the form of statement I have indicated for executor's accounts. Experience has shown it to be concise, comprehensive, elastic, and convenient; but remember in this, as in all our work, that an accountant is nothing if not accurate.

Votes of thanks to the lecturer and chairman closed the proceedings.

BRISTOL ACCOUNTANTS' STUDENTS' ASSOCIATION.

The First General Meeting of the Members of this Association was held at the Albion Chambers, Bristol, on Thursday evening, the 9th August.

Mr. E. G. Clark, F.C.A., who presided, stated that the meeting was called to consider the rules suggested by the Provisional Committee, and with one or two slight alterations, he would propose that they be now adopted.

Mr. James Milne, A.C.A., seconded the proposition, which was carried unanimously.

The Chairman intimated that the next business would be election of officers.

Mr. Milne proposed that Mr. E. G. Clark, F.C.A., be elected first president: he referred to the interest Mr. Clarke had taken in the Association hitherto, and anticipated that if he would accept that post its future success would be assured.

Mr. William Grimes seconded the proposition, which was carried unanimously.

The Chairman having briefly acknowledged the compliment, proposed that Mr. Frederick A. Jenkins, F.C.A., whose absence from town prevented him from attending that meeting, should be elected first Vice-President.

Mr. Bernard Michael seconded the proposition, which was unanimously carried.

Mr. J. H. Watling was elected Honorary Treasurer, and Mr. Bernard Michael Honorary Secretary to the Association.

The Meeting then elected the Committee, and the following gentlemen were chosen:—Honorary Members—Messrs. James Milne, A.C.A., W. A. Sully, A.C.A.. and F. N. Tribe, A.C.A.; Ordinary Members, Messrs. Baber (Charles Ware), E. H. Elsdon (W. H. Grigg), Watson Grace (James and Henry Grace), and E. N. Tribe (Tribe, Clarke and Co.)

Mr. Alfred J. E. Williams, F.C.A., was elected Auditor.

A hearty vote of thanks to the Chairman terminated the proceedings.

LIVERRPOOL CHARTERED ACCOUNTANTS' STUDENTS' ASSOCIATION.

"BALANCE SHEETS."

BY W. L. JACKSON.

The Fourth Ordinary Meeting of the above Association was held on Wednesday Evening, 25th of April, 1883, at 7 o'clock, at the Law Association Rooms, Cook Street. Present, Mr. A. W. Chalmers, F.C.A., in the Chair, and a good attendance of members. The business of the evening was to hear a lecture by Mr. W. L. Jackson, A.C.A., on "Balance Sheets."

Mr. Jackson said:—It affords me great pleasure to endeavour to be of any assistanoe in promoting the objects of this Society, which is one eminently adapted for furthering the benefit, not only of students of Chartered Accountants, and Chartered Accountants themselves, but also in an important degree that of the general public, whose interest it it is their duty to serve. At the same time, I could have wished that some one more qualified than myself had taken the matter up; but I will do the best that lies within my power to bring before you in a short practical manner the subject upon which I am to address you, viz., that of "Balance-sheets." This subject is one which possesses a peculiar interest to Public Accountants, for to balance-sheets their duties are in a special manner addressed, whether in the audit of public companies, or private persons' and firms' investigations respecting the position of their affairs, statement of affairs of estates in bankruptcy, or companies in liquidation, and also residuary accounts of the estates of deceased persons, which may practically be considered as coming under the same designation.

The science of bookkeeping is one of which all accountants should be thorough masters, and without its aid it is impossible that they can properly fulfil the duties devolving upon them. This is, however, but an ordinary branch of a Chartered Accountant's business, at the same time what may be called the higher branches of the accountant's profession largely involve the preparation and investigation of balance-sheets, and this, of course, necessitates in most cases an investigation of the materials from which the balance-sheet is made up, of which, as a rule, the bookkeeping constitutes a very important part. A balance-sheet in its ultimate form, as summarised, and ready for presentation, is, or should be, a complete bird's eye view of the position of the concern to whose affairs it relates, and for it to do this in a correct and intelligible manner, it is requisite that it should be very carefully drawn up, and care must be taken that nothing has either been omitted ascertained character, which do not ordinarily come within the scope of the bookkeeping, but which, to properly make it complete, ought strictly to be referred to in the manner provided by the form attached to Table A of the Companies Act. As in a large number of the cases, where the books have been fairly kept, many most important points requiring attention, such as valuation of debts, stock and other assets, depreciation and sinking funds for leases, plant, &c., &c., and matters of this kind, which are often those upon which errors and misstatements of the greatest importance arise, suggest themselves to a properly qualified practitioner, almost on the face of the account. A limited audit of results, is to some extent useful, but as the results shown in the balance-sheet are built up from the whole transactions of the concern to which it relates, down to the most minute details, an audit cannot be really satisfactory, and may, in many instances, be exceedingly delusive, unless the auditor has fully investigated the books from which it is taken. It is, therefore, desirable, that where a Chartered Accountant undertakes a limited audit, he should distinctly state in his certificate the extent to which it has been carried, and in no case should an auditor allow his name to appear to an unconditional certificate of approval, unless he has made a thorough investigation, down to checking the vouchers, and the posting of the books. A thorough audit, such as I have pointed out, will entail, proportionately with the transactions with which it deals, a considerable amount of time and experience, and, therefore, it is very undesirable that a Chartered Accountant should undertake any audit involving such considerations without any adequate remuneration, as otherwise, unless he is prepared to give a large amount of services gratuitiously, he is under a serious risk of bringing discredit both upon himself and upon the profession. I am of opinion, that, investigating a balance-sheet, the two great points to which the most strict attention should be directed are, 1st, to ascertain whether it presents a complete and accurate statement, both debit and credit, of the affairs of the concern to which it relates at the time of which it purports to have been drawn up, especially as regards the inclusion of all outstanding liabilities, proper allowances for bad and doubtful debts, for depreciation, and when necessary, that stocktaking and valuations are properly certified; and 2nd, to ascertain that the profits are correctly arrived at, and especially to note that no items properly chargeable to revenue have been passed to capital account. Subject to the proper distinction of the capital and revenue account—

provided the books have been ordinarily well kept—the balance of the profit and loss account will not, as a rule, be far wrong, provided that the other items in the balance-sheet coming under the first heading, and showing the actual assets and liabilities of the concern, are accurately set out, and it is therefore here that the auditor has to specially exercise his watchfulness, for however well in form the books may have been kept, and however well the details of the balance-sheet may have been arranged, if invoices and accounts are omitted from among the debts and liabilities, or if, on the other side, the debts due are overstated, or no deduction made for bad or doubtful debts, or other assets are overvalued, or proper depreciations not provided for the balance-sheet may be of a most fallacious character, and simply calculated to deceive. It is, as you will no doubt at once see, in many cases most difficult to be satisfied that all outstanding matters are properly set out in the books, unless periodical statements are received from the creditors to refer to, and periodical accounts rendered to the debtors —to be returned by them for amendment if incorrect, and regularly certified valuations made of the stock, plant, machinery, &c. In many cases, these matters are not at all or only partially practicable or desirable, and therefore the auditor requires to exercise all his intelligence in endeavouring to arrive at a satisfactory conclusion. An auditor, in overlooking errors, under such circumstances, may explain in defence that the results certified were taken from the books, and that he had not the means of ascertaining that anything had been omitted, or improperly valued, but it is a question, how far this excuse can properly be urged (except perhaps, in cases where the information was altogether beyond his reach) unless his certificate contains a qualification.

In statements of affairs in bankruptcy much more attention is, I think, as a rule, given to the necessity of showing the actual position, and less is taken for granted in the correctness of the means from which it is derived, than is the case in the preparation and audit of the accounts of going concerns, in which I am disposed to think very often too much reliance is placed upon the results worked out from the books, without sufficient care being taken to see that they tally with the actual state of the case.

In the short address which I am giving, it hardly comes within my province to give specimen forms of balance-sheets, and were I to attempt it the subject would occupy too great a length of time to be dealt with properly; but I should advise all those who are in the accountant's profession, either as students or clerks and principals, to take every opportunity of making themselves acquainted with the forms that come before their notice, either in their own office, or in published returns, and to peruse the forms provided by the Companies Act 1862, the Regulation of Railways Act 1868, the Gas Works Clauses Act 1847 (Amendment), Life Assurance Companies Act 1870, Friendly Societies Act 1875, &c.

In discussing this matter, I dare say it will be expected of me to say something on a point that has been agitating the circle of accountants lately, viz., the sides of a balance-sheet upon which the assets and liabilities respectively should be placed,—whether the debits and credits should be stated as in the books and trial balance-sheet, or transposed, as is provided by the Government forms, and as customary now in published balance-sheets. It seems to me that this not a matter of any great importance, and that the essence is more to be considered than the form, provided the latter brings the state of affairs correctly before those who are interested, or before those to whom the balance-sheet may be brought for the purpose of inducing them to become interested, *e.g.* by giving credit, or by taking shares in a company, &c. I am of opinion, however, that the form now commonly adopted in the balance-sheets of public companies, in which the items are transposed in transferring them from the trial balance-sheet into the summarised form for publication, and in which the liabilites appear on the left-hand side, and the assets on the right-hand side, has a great deal to be said in commendation of it, as this form is much more readily to be understood by non-technical persons and the general public. A summarised balance-sheet of a public company, for instance, as presented to the share-holders, is really understood by them to be a statement of its affairs, and in a sense, of the affairs of the shareholders, to the extent to which they are interested in it, and in the same way the balance-sheet of a private individual or a firm, drawn up in such a manner, is a short statement of his or its position and affairs. Now, a man usually considers that his property is "to the good"—as he would call it—or the credit, and his liabilities "to the bad" or debit side, and therefore it seems more natural for the items to appear in this manner. I read in the papers the other day of a Chinese citizen, who thought it desirable to open a set of books to show his moral conduct. Now, supposing any of you were to do this, when you came to the final result I think that it would appear natural to consider anything due to you to be the credit, and *vice versa*, and the same with regard to your material concerns.

There is another point also to be considered if you treat the balance-sheet as presented in the form I have mentioned, as a statement of affairs, the balance or profit and loss account appears as a balance after deducting the total of the items on one side of the balance-sheet from the total of the items on the other. Presuming there is a balance profit, this will appear on the debit side, in the transposed form. Now, if carried down, as it would be in a statement, it will be brought down on the credit side, representing the excess of assets, and items practically treated as such, over liabilities. To illustrate this further, take the case of a balance-sheet of books kept by single entry. The assets appear in the sheet, as taken from the books on the debit side, and the liabilities on the credit side, the difference, subject to certain corrections for partners' drawings, &c., presuming there has been a profit, will then appear, practically, as a balance to be carried down to the debit. This in both forms of bookkeeping might be apt to create misapprehension, but if before being presented to the public the sides be transposed, the assets and liabilities and the balance of profit and loss carried down, would appear naturally stated. A great objection to the transposed balance-sheet is, that the items are set out on the sides opposite to those in which they appear in the books, and also that the item, "balance of loss" in the balance-sheet does not so well dovetail in with the profit and loss account, which usually appears underneath the balance-sheet, and the items of which cannot be transposed without confusion. By, however, considering the balance-sheet as a statement of affairs, and the balance of the profit and loss account appearing in it as an item to be carried down, this difficulty, I think, loses some of its point.

To take another illustration—in the form provided for a bankrupt's statement of affairs he has to debit himself with his liabilities and to take credit for his assets, which seems perfectly proper. The deficiency is the amount by which the assets are short of the liabilities, and if entered would be brought down as a balance to the debit. If, as was necessary under the Bankruptcy Act of 1849, and is sometimes required now, the bankrupt has to prepare a deficiency account, this balance is carried into this account to the debit from the statement of affairs, and the bankrupt is then further debited with any profits that he may have made, and on the credit side has to show the disposal of these items. To sum this question up, I may again mention that I do not think that it involves any principle of importance, but as a matter of convenience, I am of opinion the transposed form is more likely to make itself clear to non-technical persons, while to a qualified person no difficulty can arise in comprehending the balance-sheet in either form. I have now brought this paper to a conclusion—a paper which I am aware deals in a very imperfect and fragmentary manner with the important questions

arising out of the subject to which it relates. I have confined myself to dealing with the subject in a general manner, and have not attempted to go into details concerning the preparation and audit of balance-sheets, which it would have been out of my power to have done justice to in this short essay. To make yourselves thoroughly acquainted with these matters, I should recommend you to utilise the opportunities you have of acquiring information in your offices, to study the various balance-sheets and forms of such, to which you may be able to refer; to study "Pixley on Auditing," and the various other books relating to the subject before us, which I trust you will very soon have an opportunity of referring to, in the library which we are endeavouring to establish. By these means, and by practical work, you will all become thoroughly capable of fulfilling in an intelligent and conscientious manner the duties devolving upon you in your profession, and so do your share in maintaining and increasing its character and prestige.

A discussion afterwards took place, in which Messrs. A. W. Chalmers, D. L. Chalmers, James A. Cariss, Eastwood, and Howarth took part.

Votes of thanks to Lecturer and Chairman brought the meeting to a close.

CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

THE COMPANIES ACTS 1862-80.

A Meeting of the above Society was held on May 22nd, Mr. G. Sneath, F.C.A. in the chair, when Mr. J. R. Ellerman, A.C.A. delivered the following lecture on the Companies Acts:—

Mr. Chairman and Gentlemen,—The subject of my lecture this evening, viz., the Companies Acts 1862 to 1880, is one of great importance to accountants and to accountants' students. Partnerships consisting of numerous members, with a capital divided into shares, transmissible by any of the shareholders without the consent of the others of them, struggled into existence during the end of last century. Various Acts of Parliament from time to time were passed relating to these, but all were repealed by that very comprehensive statute known as the Companies Act of 1862, with which must be read the amending Acts of 1867 to 1880.

I propose to divide my lecture into four heads:—

(1.) The formation of companies and membership therein.

(2.) Administration of companies.

(3.) The rights and liabilities of members.

(4.) The dissolution and windiug-up of companies.

And in dealing with these my object will be to draw attention to the points I consider of most use to us.

First, as to formation of companies and membership therein.

Every ordinary partnership having gain for its object (except a company engaged in working mines under the Stannaries Acts, or formed by private Act of Parliament or by Royal Charter, and consisting, if for banking purposes, of more than ten persons, or for other purposes of more than twenty persons *must*, or any seven or more persons associated for any lawful purpose *may*, form themselves into a company, with or without limited liability, by subscribing their names in the presence of a witness to a document called the memorandum of association, which must be stamped as a deed, and wherein the following particulars must be set forth. In an unlimited company:—

(1.) The name of the company

(2.) The situation of the registered office in the United Kingdom.

(3.) The objects for which the company is formed.

For limited companies, of which there are two kinds, the memorandum of association of those limited by shares must contain—

(1.) The name of the company, with "limited" as the last word.

(2.) The situation of the registered office in the United Kingdom.

(3.) The objects of the company.

(4.) A declaration that the member's liability is limited.

(5.) The amount of the nominal capital, divided into shares of a fixed amount, and subject to the following regulations, viz. that no subscriber shall take less than one share, and that each subscriber shall write opposite his name the number of shares he takes. These regulations, be it observed, also apply in the case of unlimited companies, and companies limited by guarantee, having their capital divided into shares.

For the other kind of company with limited liability, viz. companies limited by guarantee, the memorandum of association must contain:—

(1.) The name of the company, with "limited" as the last word.

(2.) The situation of the registered office.

(3.) The objects of the company.

(4.) A declaration that each member in case of a winding-up undertakes to contribute during membership, or within one year after membership, such amount, not exceeding a certain fixed sum, to the assets of the company as shall be required for payment of liabilities contracted during membership, and the expenses of winding-up.

The memorandum of association of a company limited by shares, may be altered if authorised by its original regulations, or otherwise by special resolution, so as to increase its capital, to consolidate and divide its capital into shares of a smaller or larger amount, to convert its paid-up shares into stock, to reduce its capital and the amount paid up on the shares, to make the liability of its directors unlimited, to return undivided profits in reduction of paid-up capital, to create a reserve liability, and to change its name (which latter power is also given to unlimited companies and those limited by guarantee); but it cannot be altered further; therefore it is necessary in stating the objects of the company to make them as comprehensive as possible, as any act done by the company outside the powers contained in the memorandum of association is illegal, and involves the usual penalties of *ultra vires* acts. The memorandum of association is, so to speak, the constitution and frame of the company; the company must not trade outside its terms. The memorandum of association *may* in case of a company limited by shares, and *must* in companies limited by guarantee or unlimited, be accompanied when registered by articles of association prescribing the regulations of the company, which must be stamped as a deed and signed by the signatories to the memorandum of association in the presence of a witness, and must be printed in separate paragraphs numbered consecutively, and such articles shall in the case of a company, whether limited by guarantee or unlimited, that has its capital divided into shares, state the amount of the nominal capital, and in the case of a company that has not its capital divided into shares, the proposed number of its members.

When a company limited by shares is registered without articles of association, table A. of the Companies Acts 1862 is, as far as applicable, to govern the company. The regulations in Table A., it must be borne in mind, have no parliamentary sanction, and are only given as a sort of model. The regulations contained in the articles of association generally provide for the transfer, transmission, and forfeiture of shares; the power to convert them into stock, and the power to increase the capital; as to when general meetings shall be held, the proceedings and votes of members thereat, the number, qualification, disqualification, powers, proceedings, and remuneration of the directors; as to the payment of dividends, the keeping of true accounts and the auditing thereof, with regulations as to the auditor's appointment, remuneration, and duties, &c. And also the event (if any) upon the occurrence of which the company is to be dissolved.

On the subject of Directors and Auditors, I propose to say a few words in the second head of my lecture.

The company has power by special resolution to alter any of the regulations contained in the articles of association which are again subject to future alterations; the permanence of the general constitution and frame, as I have already pointed out, being secured by the memorandum of association. A special resolution is a resolution passed by a majority of not less than three-fourths of the members present in person or by proxy at a meeting, and confirmed at a subsequent meeting, held not less than fourteen days or more than a month afterwards; unless a poll is demanded by five members, the chairman's declaration is sufficient. Notice of the meeting, and the votes of members thereat, are determined by the regulations of the company; if there be no regulation as to voting, each member has one vote. A copy of the special resolution must, under a penalty, be forwarded within fifteen days to the registrar, and every copy of the articles of association issued afterwards must have the alteration annexed.

The memorandum and articles of association (if any) are forwarded to the registrar with the proper fees, who retains and registers them, and in return gives the company a certificate of incorporation which certifies that the company is duly incorporated, and, in the case of a limited company, that the company is limited, and is conclusive evidence that the requisitions of the Act respecting registration have been complied with. The subscribers to the memorandum of association and all future members thereupon become, and are, capable of exercising all the functions of a body corporate, with perpetual succession, a common seal and power to hold lands.

No company, however formed, for a religious or charitable purpose not involving the acquisition of gain, can hold more than two acres of land without the written consent of the Board of Trade, and by the 1867 Act, section 23, a company of this kind can be registered with limited liability, without the addition of the word "limited" to its name. Having obtained the certificate of incorporation, the company usually issues a prospectus dwelling in glowing terms on the advantages of the company, with a form of application for intending members to fill up and return to the company.

By the 1867 Act, section 38, the prospectus must contain particulars of all the contracts entered into by the company, its promoters or directors, and any prospectus is fraudulent which does not contain these, though the omission does not entitle shareholders to have their names removed from the register of members, but merely gives them a remedy against the promoters. The prospectus is also fraudulent if it conceals material facts or misrepresents them. A distinction must be made between exaggeration of facts and actual misrepresentations of them. The prospectus is the basis of the agreement between the company and the applicant for shares, and if the prospectus is fraudulent, the shareholder taking shares on the faith of its representation can, if he exercise reasonable diligence, repudiate them, and cause the directors to remove his name from the register of members; but it is his duty to see that they actually remove his name, and, in case they do not, to commence an action against them to compel them to do so. Should he have acquired the shares by transfer, his remedy is not against the company, but against the transferor. A distinction is made between repudiation, or proceedings commenced before the winding-up of a company, and afterwards, as the shareholder is liable to the creditors as a contributory if it is after the winding-up.

The contract between the applicant and the company is completed by the issue by the latter of a letter of allotment, allotting a certain number of shares to the applicant; and from the time when the company posts this to him, he becomes a member of the company in respect of the shares so allotted. The contract is not binding if the application is subject to a condition and the allotment is unconditional, and the allotment must be for the same kind of shares as those applied for. If there is any material alteration in the scheme between the issue of the prospectus and the allotment, the applicant can repudiate the allotment, if he do so within a reasonable time.

Every company must keep a register of members, which must contain their names, addresses, and occupations, and the date of their becoming or ceasing to be members, with particulars of the shares and their distinctive numbers.

Subscribers to the memorandum of association upon registration are to be entered in it, and so is every person who agrees to become a member, and those whose names are entered on the register are deemed to be members, and such register of members is *prima facie* evidence of membership. The share or interest of a member of a company is personal estate, and the transfer of the interest of a deceased member by his personal representative is of the same validity as if the deceased member had made it. No notice of any *trust* can be entered on the register, and members have the right of inspecting the register, except when closed. The company have power to close the register, by giving notice, for any length of time not exceeding thirty days in each year.

All directors who exercise their rights as such must have shares to the extent of their qualification entered on the register, and they will be liable on them. Thus in the case of A. Levita, he received no notice of allotment, but his name was advertised as a director, and he attended a meeting of directors, and on the company being wound-up he was held liable. So also in the case of officers. In Wheatcroft's case there was neither an application nor allotment, but the shares were *de facto* allotted, and as he was an auditor of the company he was held liable; but in Gorrssen's case, an auditor who swore he had never looked into the books or done anything more than help in making up the minute-book, was allowed to escape. I hope auditors of this description are fast dying out.

By section 25 of the 1867 Act every share is deemed to be issued subject to the payment of the whole amount thereof in cash, unless it shall have been otherwise determined by a contract in writing filed with the registrar at or before the issue of such shares. This section does not apply when the set-off is for cash presently payable by the company as against cash payable upon the shares of the company, beccuse although no money actually passes the shares are really paid for in cash.

I now pass to the second head of my lecture, viz. The Administration of Companies. The business of a company is carried on by directors, who are alone intrusted with the management of the concern, but who are usually appointed by the shareholders; I say *usually* appointed, because in some companies in course of formation the directors appoint themselves. They are accountable to the shareholders. The first directors, their numbers, powers, qualification, disqualification, &c. are generally provided for by the articles of association. The usual clauses as to the disqualification of a director are:—

(1.) If he hold any office or place of profit under the company.
(2.) If he become bankrupt or insolvent.
(3.) If he be concerned in, or participate in, the profits of any contract with the company.

But he will not be disqualified should he be a member of a company that has made a contract with the company of which he is a director, though he cannot vote in favour of such contract. Directors, in the absence of any regulations, may determine their own quorum, whose decision is sufficient to bind the company in all ordinary and legitimate transactions when duly passed at a board meeting, and if not so passed if the other contracting party had not notice of the irregularities.

Directors are subject to control by the shareholders, who can, by passing a special resolution, displace them. This right of control by the shareholders over the directors is not an individual right, and can only be exercised by a duly convened meeting of the shareholders in accordance with the regulations of the company, when the requisite quorum must be present and the resolution duly passed.

There are two kinds of meetings of companies, ordinary and extraordinary. Ordinary or general meetings are held at stated times, and must be held at least once a year. By the 1867 Act every company must hold a meeting within four months of its registration, when the directors must retire, unless there are special regulations to the contrary, this meeting is called an extraordinary one. Ordinary meetings are competent to deal with the passing of accounts, declaration of dividends, election of directors and auditors, and similar matters brought within their powers by the regulations of the company. All business that is deemed special, must be passed at an extraordinary meeting, and no questions other than those of which notice has been duly given can legally be dealt with by such extraordinary meeting. An ordinary majority, in the absence of any regulation to the contrary, is only necessary to pass a resolution; but for some matters, such as alterations to articles, removing the directors, determination to wind-up, &c. the Act requires that a special resolution shall be passed. At ordinary or annual meetings, the directors submit accounts of the year's trading, signed by the auditor of the company, which, if the company is prosperous, contains a report recommending the declaration of a dividend.

The power to declare dividends belongs to the shareholders, and is not part of the duties of the directors. At these meetings one-third of the directors retire, but are eligible for re-election.

The auditors to a company must under table A. make a report to the members upon the balance-sheet and accounts. In *Spackman* v. *Evans* it has been decided that the auditors are agents of the shareholders so far as relates to the audit of the accounts; and for the purposes of the audit they will bind the shareholders. But they are not the agents of the shareholders so as to bind the shareholders by any knowledge which in the course of the audit they may have acquired of any unauthorised acts on the part of the directors. It is no part of their office to inquire into the validity of any transaction appearing in the accounts of the company.

This case was one of many decided as to who were contributories of the Agriculturists Cattle Insurance Company, which went into liquidation in 1861, or before the present Act. I am sorry that there has been no trial bearing on the subject to my knowledge since the 1862 Act, as although *Spackman* v. *Evans* has always been regarded as the authority on the subject, still I fail to see how it governs auditors in the present day, when professional or real auditors have obtained such general public recognition and confidence. I am glad to see a debate bearing on the subject is arranged for the 5th of June.

The directors of a company fill a double capacity—they are the agents of the company to the outside public, and they are trustees for the shareholders of the powers intrusted to them.

All deeds requiring the company's execution must have the company's common seal impressed on them, and be signed by at least one director, the number being generally two. All share certificates must be sealed, and each share must be distinguished by its particular number. When the company is limited, the directors must, when they sign cheques or bills, see that the word "limited" is the last word of the name of the company, or if they are dishonoured, the director will be personally liable for them together with a penalty of £50. They must also take this precaution in giving written orders.

Every company must keep a register of mortgages (if any), containing particulars of the property charged, which must be open to the inspection of members and creditors of the company.

Every limited banking company, and every insurance company, and every deposit, provident or benefit society, before commencing business, and on the first Monday in February, and again on the first Monday in August in each year, must draw up and affix in a conspicuous place in its registered office; and in every place of its business, a statement setting forth the capital of the company, divided into shares, on the preceeding first day of January (or July), the total number of shares issued, the amount of the calls, the amount of the calls received, and the amount of the company's liabilities and assets (giving particulars under several heads), and every member or creditor is entitled to a copy of this on payment of a sum not exceeding sixpence.

Every company not having a capital divided into shares, must keep at its registered office a register of the names, addresses, &c., of its directors or managers, and must send a copy of such register to the registrar to whom also any change in the officials must be notified.

Every company must keep minutes of the proceedings of general meetings, and of all the board meetings of its directors, and these should be signed by the chairman of the subsequent meeting.

On the fourteenth day after the first, and each succeeding, annual meeting of a company having its capital divided into shares, an annual return must be made, and transmitted within seven days to the registrar, containing the following particulars: the names, addresses, and occupation of members, and the number of shares held by them, together with a summary, specifying the nominal capital of the company, with the number of shares into which it is divided, the number of shares taken, the amount of calls made, the total amount of calls received and unpaid, the number of shares forfeited, and the names and particulars of those who have ceased to be members since the last return.

Power is given to companies by writing under common seal to refer to arbitration. A company limited by shares, by passing a special resolution, is allowed by the Companies Act, 1867, sections 9 and 15, to reduce the shareholder's liability to make further payment on his shares; but the reduction must be carried out under an order of Court, which must be obtained, and the company must, after passing such special resolution, add to its name, until such date as the Court may fix, the words "and reduced." The Companies Act, 1877, allows of reduction by cancelling lost capital, paying off capital in excess of the wants of the company, either with or without reducing the liability remaining on the shares, and cancelling shares which have never been issued.

I now come to the third head of my lecture, namely—The Rights and Liabilities of Members. Subscribers to abortive companies are not liable for expenses incurred in attempting to get them up. Members in a company are entitled to see the accounts, to appoint directors and auditors, and to fix their remuneration; to have copies of the company's memorandum and articles of association; to have copies of all special resolutions, to inspect the register of mortgages and register of members; and if the members are dissatisfied with the working of the company, upon the application of

members holding not less than one-fifth, or—if a banking company—one-third of the shares, or of one-fifth of the members if the capital is not divided into shares, the Board of Trade will appoint inspectors to examine the books and documents and the officers of the company on oath, and report their opinion to the Board. A copy of this report is to be sent to the company, and, if they desire it, to the shareholders requiring the investigation. The company may also, by special resolution, appoint such inspectors (or, as they are more usally called, a committee of investigation) with like powers to report to such persons as it may direct. Copies of these reports under the company's seal are admissible as evidence of the opinion of the inspectors in any legal proceedings. The members have power to determine that the company shall be wound-up, and, within certain limits which I have already pointed out, to alter the constitution of the company.

As the directors or the officials appointed by them have alone power to bind the company as its agents, their powers in every transaction must be exercised for the advantage of the members, and they will be held accountable for losses in cases of gross culpable negligence. The mutilation or falsification of the books of the company by any officer or contributory is a misdemeanour. A company is not bound by fraudulent acts of directors entered into on its behalf. Promoters also who make profits by selling property to a company without a complete disclosure of all the facts, will be ordered to refund to the company the moneys unfairly obtained. The chief question which commonly occurs between the company and its individual members, relates to the payment of money due from them in respect of calls. The powers of directors to make calls must be strictly followed, and generally the directors are empowered under the regulations of the company, if the calls be unpaid, to declare the shares of the defaulters forfeited. This power must in no case be exercised for the member's benefit, and if *ultra vires* it can be set aside.

The transfer of shares must generally be by deed, and if there is no power in the articles for directors to reject proposed members, shareholders can transfer their shares to any one they please, provided they do so out and out without reserving any interest for themselves, and without any misrepresentations as to the consideration or as to the description of the transferee; the transfer too must be perfectly open and without fraud. Where the directors have power to reject, such power must be used by them with a view to protect the shareholders, and not to restrict the right of transfer. In cases of unnecessary delay, the shareholder can apply to the Court for redress. If any formalities remain to be done before the transfer is complete, and a winding-up takes place, the Court cannot dispense with those formalities and complete the transfer, but the transferor will remain liable. The liability of members of a limited company is limited in the case of existing or present members to the amount unpaid on their shares, or if the company is limited by guarantee to the extent of their guarantee; and the case of persons who have ceased to be members within a year of the commencement of the winding-up, to a similar extent; but the latter are only called upon to contribute after the calls paid by the existing members are exhausted, and then only for the payment of existing debts, which were owing when they ceased to be members.

If a limited company be carried on for more than six months after the number of members has been reduced to less than seven, the liability of each member who is cognisant of the fact is unlimited. In limited banking companies issuint notes, the members are liable, in addition to the amoung unpaid on their shares, to the whole amount of the issue.

I now come to the fourth head of my lecture—The Dissolution and Winding-up of Companies. In the limited time at my disposal I do not propose to do more than touch generally upon the powers and duties of liquidators in the winding-up of companies, feeling sure that this large and important subject will be dealt with by some future lecture

An unregistered company, that is, one formed previous to the 1862 Act, consisting of more than seven members, but not including railway companies incorporated by Act of Parliament, can, by the 1862 Act, be wound-up by the Court of Chancery in any one of three events. First, when the company is dissolved or has ceased to carry on business, or is only carrying it on for the purpose of winding-up. Secondly, whenever the company is unable to pay its debts. Thirdly, whenever the Court thinks it just and equitable that the company should be wound-up.

There are three ways in which registered companies may be wound-up: first, compulsorily by the Court; secondly, voluntarily under the control of the shareholders; and thirdly, voluntarily under the supervision of the Court. The events on which a registered company may be wound-up by the Court are—

(1.) Whenever the company has passed a special resolution requiring the company to be wound-up by the Court.

(2.) Whenever the company does not commence business within a year of incorporation, or suspends its business for a year.

(3.) Whenever the members are less than seven.

(4.) Whenever the company is unable to pay its debts.

(5.) Whenever the Court is of opinion that it is just and equitable that the company should be wound-up.

By section 80 the company is deemed to be unable to pay its debts, when a creditor for a sum exceeding £50 has served on the company under his hand a demand requiring payment, and the company has for the space of three weeks neglected to pay, secure or compound the same, or whenever execution issued on a judgment decree or order obtained in any court by a creditor of the company is returned unsatisfied in whole or in part; or whenever it is proved to the satisfaction of the Court that the company is unable to pay its debts. The course of proceeding is by a petition for an order to wind-up, which may be presented by the company or any one or more of its creditors or contributories, or by them all, or any of them jointly or separately. In the case of a contributory the 1867 Act provides that no contributory can present a winding-up petition unless the members are less than seven, or the contributory had his shares allotted to him originally, or unless he or his wife or her trustee has been registered in respect of such shares for six months during the eighteen months preceding the presentation of the petition, or he had acquired them by the death of their former owner. Over the petition the Court has complete control, and it may dismiss it or adjourn the hearing, make an interim order, or any other order it deems just. The Court, after presentation of the petition and before making the order, may restrain further proceedings against the company, and may appoint a provisional liquidator to protect the assets of the company until the appointment of an official liquidator. The winding-up is deemed to commence upon the presentation of the petition, and all proceedings by creditors, dispositions of the company's property, and transfers of shares between its presentation and the making of the order to wind-up are void, unless the Court otherwise orders. When an order for winding-up has been made, a copy of it must be forwarded to the registrar. No action can be commenced after the order has been made without the leave of the Court and subject to such terms as it may prescribe.

The Court may call meetings of the creditors and contributories, and have regard to their wishes. The process of winding-up is conducted by an official liquidator or liquidators appointed by the Court, provisionally or otherwise, and the Court can determine what security they are to give. Any official liquidator may resign, or be removed by the Court on due cause shown. He must be described as the official liquidator of the particular company in which he is appointed, and he should take into his custody, or control, all the company's property and effects, and perform such duties as the Court imposes.

With the sanction of the Court the official liquidator may bring or defend any action in the name and on behalf of the

company, compromise any claims or demands by or against the compay, carry on the business so far as may be necessary for the beneficial winding-up, sell the company's property and execute in the name of the company all necessary documents and use its seal. He may also prove and draw dividends from bankrupt contributories, draw, accept, make, and endorse bills of exchange or promissory notes on behalf of the company, raise money on the security of its assets, take out, if necessary in his official name, letters of administration of any deceased contributory, and do all other things necessary for winding-up the company's affairs and distributing its assets. The Court also may order that he may exercise any of the above powers without its intervention. The official liquidator can, with the sanction of the Court, appoint a solicitor to assist him. The official liquidator is not personally liable for his costs; the solicitor has no lien on any documents in his charge relating to the winding-up, but has a lien for his costs on any fund obtained through his instrumentality.

The official liquidator cannot take a remuneration out of the assets until all the costs of the winding-up are paid, the rules as to priority being—

(1.) Petitioner's costs.
(2.) Cost of winding-up (including the solicitor's charges).
(3.) Official liquidator's remuneration.

The official liquidator, as soon as possible, makes a list from the register of members and books of account of the company of those liable to contribute to the assets. These persons are called contributories, and until it is finally determined who they are, includes everybody alleged to be liable to contribute. The official liquidator leaves this list, verified by affidavit, at the judge's chambers. It is divided into two parts, the first part containing those who are contributories in their own right, and the second those who are liable in a representative capacity. The official liquidator obtains an appointment from the Court to settle this list, and gives every person included in it four or more days' notice of such appointment. In settling this list the Court has full power to rectify the register of members. The present members are included in the list, and form a class called the A class, and in another part of the list, called the B class, are included the past members, or all those who have transferred their shares within twelve months of the date of the commencement of the winding-up.

These members, when placed on the list, are liable to contribute, when the company is unlimited, such sums as shall be sufficient to pay the debts, costs of winding-up and adjusting the rights of contributories among themselves; but no past member, as I have before explained, is liable to contribute in respect of any debtor liability incurred after he ceased to be a member, nor is he liable unless the existing members are unable to satisfy the liabilities.

In companies limited by shares or guarantee, contributories contained in list A, or present members, are liable to contribute to the amount unpaid on their shares or to the extent of their guarantee. No set-off is allowed against any call in the case of limited companies unless the creditors have been paid in full, and the call is made to adjust the rights of the contributories. This list A must be exhausted before list B, or past members, can be called on to contribute, and then only when the assets obtained are unable to satisfy the liabilities. A past member's liability is limited in companies limited by shares—first, to the amount left unpaid on his shares by the A contributories to whom they have been transferred, and in companies limited by guarantee to the extent of his guarantee; secondly, to the extent of the residue of debts contracted before he ceased to be a member, and still remaining due after all the assets obtained in the winding-up have been applied *pari passu* towards the liquidating of the total debts. The law of appropriation applies to past members. Any sum obtained from past members form part of the general assets.

The official liquidator obtains payment of these assets by means of calls. He applies to the Court, stating the proposed amount of the call, supported by an affidavit, and four days' notice of the day appointed for making the call must be given to each contributory. The Court makes an order to that effect, a copy of it must be served on each contributory. The Court may fix a time within which debts are to be proved, on pain of being excluded from the benefit of any distribution made before they are proved, and an advertisement is inserted in the *Gazette* and local paper for this purpose.

The official liquidator examines all claims sent in, separating those which ought to be allowed without further evidence, with reasons for such allowance, from those which ought to be proved by the creditors, and verifies the same by affidavit. The Court appoints a day for adjudicating on the proofs (subject to appeal), and only those creditors need attend who are required by notice from the official liquidator to do so. When the claims are settled, the chief clerk gives a certificate of all those allowed, containing, first, those debts which carry interest, calculated to the date of the certificate; and second, in another part of the schedule those which do not carry interest. If a company is insolvent, interest stops at the commencement of the winding-up, unless the creditor holds security above the value of his debit. Previous to the Judicature Act 1875, creditors could prove for their debts in full, and afterwards realise their security without giving credit for the same. This cannot now be done.

The official liquidator must pass his accounts at the times stated on appointing him, and such accounts must be verified by affidavit and vouched. It is his duty to make up and rectify the company's books, and himself to keep books and also a ledger account with each contributory. Neither contributories nor creditors have the right of inspecting the company's books without an order of the Court. The official liquidator must pay all money's into the Bank of England, to the account of the Official Liquidator of the Company (which is opened by an order of the Court) within seven days of receipt, unless the judge otherwise directs, under heavy penalties, and deposit with the Bank of England all notes, bills and acceptances for payment when due. The Court may require any one to deliver to the official liquidator forthwith, or within a fixed time, any sum, books, papers, &c., which happen to be in his hands, to which the company is *primâ facie* entitled, and has power to arrest any contributory about to abscond, or conceal or remove any of his property.

When all the assets have been realised and the costs of the winding-up paid, including his own charges, the official liquidator proceeds to declare a dividend upon the claims, and when the winding-up is complete he must pass his balance-sheet of receipts and payments, verified by affidavit, and his final account; and when the sum due from him as appearing by the chief clerk's certificate has been paid into the Bank of England, the chief clerk gives his certificate that the affairs of the company are completely wound-up. The official liquidator then applies to the judge for an order dissolving the company, and the company will be dissolved from the date of such order. The order of dissolution must be reported under a heavy penalty to the registrar.

The books, accounts and documents of the company and of the liquidators are to be disposed of as the Court directs, but no responsibility is to rest on any one to whom they have been committed for not producing them after five years.

When the company has been wound-up voluntarily under the supervision of the Court the same rule applies, and when wound up voluntarily the rule is the same with the exception that the shareholders determine who shall have the custody of the books.

I will now briefly consider voluntary winding-up. A registered company can be wound-up voluntarily:—(1.) Whenever the time (if any) has expired, or the event (if any) has taken place, upon which by the articles the company was to be dissolved, and a general meeting passes a resolution requiring the company to be wound-up. (2.) Whenever the

members have passed a special resolution requiring the company to be wound-up voluntarily. (3.) Whenever the members have passed an extraordinary resolution that the company cannot by reason of its liabilities continue business, and that it is advisable to wind it up. A resolution is extraordinary when passed in such a manner as would if confirmed at a subsequent meeting have constituted a special resolution. Notice of the winding-up must be duly advertised. The commencement of the winding-up is from the time of passing the resolution. A company shall from the commencement of the winding-up cease to carry on its business except so far as is necessary for its beneficial winding up. All transfers of shares and dispositions of property (except with the sanction of the liquidator) are void; but the corporate state and powers of the company continue till its affairs are wound up.

The property of the company is applied in satisfaction of its liabilities, and to enable the company to do this the members appoint a liquidator and fix his remuneration, or the company may by an extraordinary resolution delegate to the creditors, or a committee of them, the power of appointing liquidators. The liquidator has the same powers as an official liquidator, and is empowered, with the sanction of an extraordinary resolution of the company, to make compromises and arrangements with creditors or contributors for all claims by or against the company. The liquidator settles the list of contributories and makes such calls on them as he deems necessary. Any arrangement sanctioned by an extraordinary resolution will bind the company, and also the creditors, if acceded to by three-fourths in number and value of them, subject to the right of any contributory or creditor to appeal to the Court within three weeks from the completion of the arrangement. The Court, if applied to by the liquidator or contributory, may exercise the powers which it might exercise if the company were being wound-up by the Court.

The liquidator, when authorised by a special resolution of the members, may sell the whole or a portion of the company's property to another company, and enter into arrangement that the members may receive shares, policies, or other interest instead of cash. Any member dissenting from such arrangement can compel the liquidator by giving him notice within seven days to either desist from the arrangement or purchase his interest, the value of which is to be determined by arbitration. The liquidator may summon general meetings, and must, at the end of each year (if the winding-up continue so long), lay before a general meeting an account of what he has done, and at the conclusion of the winding-up render an account to a general meeting to be called by giving at least one month's notice in the *Gazette* stating its object, and three months after such meeting the company is dissolved, and the liquidator must report the meeting to the Registrar under a heavy penalty. By section 144 of the Act, 1862, the costs of a voluntary winding-up are payable out of the assets of the company in priority to all other claims.

A voluntary winding-up does not bar the right of any creditor to have the company wound up by the Court, if the Court thinks the rights of such creditor will be prejudiced by a voluntary winding-up, but the Court may provide for the adoption in the winding-up by the Court of any of the proceedings of the voluntary winding-up. It is in this way that the third mode of winding-up, namely, voluntary liquidation under the supervision of the Court, usually arises. In this, the liquidator is subject to any restrictions imposed upon him by the Court, and he exercises all his powers as if the winding-up were simply voluntary. In other respects, including the staying of actions, such an order for winding-up has the same effect as a winding-up by the Court. When it appears that any past or present director, liquidator, or officer has misapplied the moneys of the company, or been guilty of a breach of trust, the Court may, on the application of the liquidator, a creditor, or contributory, order the delinquent to refund with such interest as seems just, and may order such delinquent to be prosecuted.

I have now brought my lecture to a close, and sincerely hope it may be of some slight use to the members, but I am conscious that I have failed in this short lecture to give anything like an idea of all the various points arising upon the Companies' Acts. In fact, in the short space of time allowed for a lecture of this kind it would be impossible for me to do so.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

At a meeting of the Manchester Accountants' Students' Society, held on the 2nd April, Mr. Edwin Guthrie read the following paper on

DEPRECIATION AND SINKING FUNDS.

Of all the interesting questions which arise for consideration in connection with accounts—especially commercial accounts—those in relation to depreciation and sinking funds are the most open to controversy. It is not in respect of the fact of chargeability itself that differences of view arise, but as to volume and mode of charge. They are not as a rule precisely measurable quantities, but such as must be assesssed at discretion and judgment, based upon observations and experience.

They are elements of charge more or less important, as the case may be, in every profit and loss account, of manufacturers of traders, whose business involves the employment of machinery, or the ownership of business premises. The incidence of charge under these heads bears also in many directions beyond the circle of trade pure and simple. Every balance-sheet or statement of affairs is consequently affected.

Having regard to the character and motives of this society, I propose to make this paper in a great measure illustrative, and if I am successful in presenting a distinct view of the *principles* involved in the assessing of these charges, I shall be content, without attempting to elaborate the more complex phases which are presented in certain financial circumstances.

First let us take the comprehensive case of a manufacturer; and though the question may appear a very simple one, let us first put and find the answer to the question, what is a manufacturer? And what is involved in the performance of the acts necessary to his business? A manufacturer is one who produces goods for sale; production implies consumpton, the value and volume of consumption represents the cost of the produce, the difference between the volume or value of that which is consumed and the volume or value of that which is produced is the profit or loss of the manufacturer.

How important then that the volume or value of that which is consumed should be accurately ascertained. To ascertain that volume or value of cost, every constituent element must be ascertained, weighed, and measured. What are they in this case? What does the manufacturer consume? Raw material, stores, labour-direct, outside services, machinery, and buildings. These heads of cost may be sub-divided indefinitely, but under them are grouped the elements of cost of most manufacturers. In a manufacturing concern all these things are consumed, and at the liquidation of his business there is no difficulty in finding the precise ultimate result of the operations; but our object at the moment is to ascertain the state of affairs *ad interim*, our friend the manufacturer desires to know yearly or half-yearly how he is faring. He is, we say, consuming material, stores, labour, outside services, machinery, and buildings; there is, however, an essential difference between the four first named and the two last named of these elements of cost. The difference is (and in this relation it is the only difference), that the first enumerated are consumed absolutely within the period concerned except a measurable residue for immediate consumption in the succeeding period,

while the last enumerated are consumed over a number of years. From year to year, neither the precise value consumed, nor the residue of value carried on from year to year, is exactly measurable. We have, therefore, to base these interim half-yearly or yearly accounts upon the assumption of a certain term of useful existence of the machinery or building. This term is called the "life" of the machine or building.

Herein is indicated the *principle* upon which we have to make our assessment, and base our interim charges.

The following may be taken as a representative case:—

A. B. undertakes a lease of 21 years of certain land and buildings, subject to a stated annual rental. Certain necessary alterations involve an outlay upon the buildings of £2,100, and machinery at a first cost of £21,000 is laid down. In this case, the rent having, of course, gone along with other specific charges in the profit and loss account, we have to provide for the recoupment of the £2,100 outlay upon the buildings. To accomplish this in the period, the rule is, to divide the outlay over the number of years of the lease, so that, at the period of liquidation, the realisation of the general assets will yield a return equal to the total original sum expended.

If it occurs to you at this point to remind me that a 21 years' annuity of £1,000 does not represent the present value of £2,100, we should not disagree; I should simply remind you in response that my subject is not that of profit and loss, but of recoupment of capital outlay, the annual capital deficiency of specific outlay. In a trading concern the question of interest on such specific outlay is upon current account in the general undertaking, and the proper division of profit and loss account into part one and part two; the former being the trading division, the latter the proprietary division, is the proper place of adjustment to equalise the charge between year and year of the trading account.

That is not the subject of the evening, I mention it only to anticipate any apparent obstacle which may have presented itself to the minds of any students who may have given attention to actual problems.

By the mode of treatment practised, the account really bears a larger charge in the earlier years of the term—by reason of the larger burden of interest incurred—than the latter years, but this is in fact generally counterbalanced by the additional cost of repairs in the later years.

If the expenditure be not outlay upon structural alterations, as supposed in the case given, but simply purchase-money, the same rule is generally practised, that is to say, the equal division of the purchase-money over the number of years.

If this is done advisably and with the deliberate intention of lightening the burden of the future, the defence of this practice is a good one: but as a matter of acturial precision it is not the true practice, nor is there in this item the consideration of any counterbalancing expenditure. The annual value of the expenditure based upon the rate of interest required as by a landlord, say 5 per cent., should be ascertained, and that amount written against the outlay after charging interest. In this way the incidence of the charge against the working account, which we have already called part 1 of profit and loss account, will be equal throughout the period.

The same rule will apply to all sinking funds where it is provided that interest and redemption of principle money should be covered by equal annual instalments.

If there should be additional expenditure during the term of the lease, the same rule will apply.

Having provided for the restoration of the capital expended in an original outlay absolutely irrecoverable in its whole amount, we have now to consider how fairly to provide for the restoration of the capital expenditure upon moveable machinery.

For simplicity's sake, let us assume in the first instance that the machinery is of one kind and of equal average length of life. First observing that the difference between this item of depreciation of machinery and the sinking fund covering the cost of the buildings abandoned at the end of the lease, viz. that while in the latter case there is no valuable residue, in the former there *is* a valuable residue, we have to assess in the case of machinery the amount of the value of the residue at the end of its "life." That assessment is necessarily arbitrary, resting entirely upon the exercise of judgment based upon observation and experience. Assume that in the case in point, the life of the machinery is the term of the twenty-one years' lease, and that the assumed residuary value is about one-fourth of the original outlay, the cost of the consumption of the machinery is about £15,750 over the period. Are we then to follow the principle settled in the case of leases, and divide this quantity into 21 equal parts to ascertain the annual cost of the depreciation of machinery? and if not, why not? and how otherwise is the residue to be reached within the term?

If the expenditure upon machinery was the same definite sum as the expenditure upon buildings under a lease, we should have to say, treat it in the same defined way; but experience shows that there are comparatively few cases where an original expenditure suffices the purposes of a manufacturer. Improvements upon machinery already acquired, and the introduction of entirely new machines, bring about in the course of a term of years, such irregularities of value, and the proportions of value consumed and left, that at the end of the term the differences of values would be so irregular, and the number of machines and of the different articles of the plant so great, that in large works it would require the employment of an actuary to keep a precise account of what was, after all, a matter of general judgment, subject to the incidence of the whole range of commercial contingencies. In some works there is a perpetual renewal of "life," by the continual partial introduction of new machinery, so that, a certain point of reduction—the point of realisable value—being once reached, the value remains permanent. Moreover the ratio of dimiuution of realisable value is greater in the earlier than in the later years of the life of machinery.

These arguments point to, and the last mentioned consideration, I think, clenches the principle upon which depreciation of machinery should be rated, and that is, after prudentially assessing the residual value, ascertain what rate of discount upon the diminishing annual value will serve to reach that residual value. Thus, the rate of 6 per cent. will write down the sum of £21,000 to £5,726, which approximates the estimated residual value at the end of the twenty-one years, the depreciation over the whole period being £15,274. This is designed to provide for the variations incident to additions and displacements.

The basis of average is thus part of the principle upon which rates of depreciation may be settled.

At this point the question may very properly be put, if the *reasonable value* at the end of the assumed period of life is to be assumed, why is not this, the principle of valuation, to apply at every rest or period throughout the life? I think we shall find no difficulty in arriving at the conclusion that such would not be a true system of interim assessment. Manufacturers and traders do not construct business premises or lay down special plant in the intent of a short period. It would seldom pay to do so. A large, irrecoverable outlay is generally expended in the preparation of a factory, and unless speedy destruction overtakes any certain business, the method of treatment for annual accounting is as of a "going concern." Otherwise, since all machinery may be said to be second-hand when once it has turned round, and perhaps unsaleable than at half its cost of first purchase and erection, a depreciation of 50 per cent. would probably not be sufficient to present the *reasonable* value at the end of the first year. Manifestly the career of the busines contemplated must have an assumed term, and the cost of the consumption of machinery and other erections must be attributed to the whole term assumed.

For fuller occasional satisfaction, prudent manufacturers will periodically call in professional valuers, having the necessary special experience, to value their plant and machinery, not necessarily annually, but perhaps every three, seven, or ten years, according to the nature of the case. But every valuation so taken for purpose of the proprietor's account, should be made with regard to normal cost rather than to the value on the day of valuation. Matter and things fixed in a permanent working position must not be treated in account as following the fluctuations of the market, for it is not a trading item that is in question, such as stock-in-trade, which can be sold any day without interruption to the works. Such a valuation is for purpose of check, and for ascertaining that a fair proportion of capital outlay is being brought into account to return the value expended within the period of its remunerative exhaustion.

In assessing such amount care should be taken that in any case of uncertainty as to amount of annual charge for depreciation of machinery and other outlay, the higher rather than the lower rate should be taken as the safer, not only from ordinary prudential considerations, but in order that, in the event of some extraordinary contingency, such as the supersession of existing machinery and appliances by new inventions, the blow should not be heavier than need be under such extraordinary circumstances.

On the other hand, to introduce into profit and loss account too great a charge for depreciation may be as disastrous as the making of too small a charge, for by so doing, selling prices of the product manufactured may be fixed so high as to prevent the necessary volume of business.

Let us consider now the relation of the cost of repairs to depreciation and annual value of property in account. Ought repairs under all conditions to be a charge direct to profit and loss account, or may they be capitalised and go in augmentation of the capital values?

On this question we cannot fix an unvarying rule. In cases where the expenditure is a regular quantity, it is clearly best to charge all expenditure to profit and loss account direct, and leave the regular rate of depreciation to meet the constant cost of wear and tear; but there are other cases where renewals and repairs are so insolved and incurred at intervals so irregular that the fairest and most prudential method of treatment may be to charge all expenditure to the respective capital accounts, and rate the charge for depreciation proportionately high, so as to distribute the true cost truly over the whole term, and prevent irregularity of charge as between year and year in respect of expenditure made in the interest of a term.

Dr. Machinery Account. Cr.

To total expenditure to date brght. down.....	10,000	0	0	By mach'ry Sales..	100	0	0
„ Additions during the half-year..	1,000	0	0	„ Balance.	10,900	0	0
	11,000	0	0		11,000	0	0
„ Total expenditure to date brght. down.....	10,900	0	0				

Memorandum of Balances at given dates.

Balnce at this date	8,000	0	0
Balnce of additions and Sales	900	0	0
	8,900	0	0
Frthr depreciaton	333	15	0
	8,566	5	0

Dr. Depreciation Account. Cr.

By Ttal Depreciation to dte brgt. down ..	2,000	0	0
„ 7½ pr cnt. on £8,900 for the half-year	333	15	0
	2,333	15	0

The above particulars are capable of being exhibited in the following form among the assets in the balance-sheet:—

	£	s.	d.
Machinery Account	10,000	0	0
Additions during the half year	1,000	0	0
	11,000	0	0
Less Sales during the half-year ..	100	0	0
Total net expenditure	10,900	0	0
Depreciation Account	2,333	15	0
Balance	8,566	5	0

In all cases allow me again to urge the giving of the benefit of any doubt to the larger rather than the smaller rate of charge. In the course of his career, it is on this point that an accountant practising in a manufacturing district has most frequently to take a stand. Private proprietors, managers, and directors of public companies, are too often prone to present the best possible aspect of the results of their efforts, and some of them will, if they may, dwell for years in a fool's paradise, holding their eyes shut to the inevitable day of reckoning, when it may be found that the lightening of the charge against earlier years has accumulated a crushing burden for some later unhappy day.

The same effect may happen not only by the short charging of expenditure, but by over-crediting in anticipation of profits, as, for instance, in the case of building societies, the practice of bringing in to the years in which they are received the premiums—paid by borrowing members upon mortgage loans—which should be distributed over the whole term of repayment, and in the case of insurance companies the treating of single premium receipts in like manner. I do no more than indicate this as an issue involving the same principle—the actuarial principle in its application to commercial accounts.

Now as to the modes of stating the accounts subject to depreciation, and the depreciation accounts themselves, there are three plans open.

(1.) To reduce the principal account and itself by the amount of depreciation, and carry down the diminished value. This plan presents the advantage of simplicity in presenting the results, but by it are lost the total of the expenditure on the one hand, and the total of derpreciation on the other, up to any given date and over any given period.

Another plan is to keep the principal account and its account for depreciation separate, and thus exhibit the total of each. But in this we lose sight of the balances representing the diminishing value, and this it is frequently necessary to know. But it is possible to keep a combined account exhibiting both totals and balances, and this is the form I suggest as the most comprehensive. (See table above.)

So far I have used for simplicity of illustration a single account as rated for depreciation. This is seldom, however, the whole case, a very general division being as follows:—(*a*) buildings, (*b*) engines, boilers, and gearing, (*c*) machinery, (*d*) loose appliances. There may also be (*e*) patterns, (*f*) patents, (*g*) goodwill, (*h*) leases. But by way of presenting

something like a complete view of the range of capital items subject to annual or periodical reduction of value for depreciation, the following table is set out. Although each line has its special features, the same *principle* of treatment is capable of being applied to them all without exception.

The following is given as a general sketch showing the various tenures and modes of rating different property accounts.

Table of Capital Items subject to charge for Depreciation and Redemption, with general range of Rates and Remarks thereupon.

Object of requirement.	Tenure.	Matter.	Rates.	Remarks.
Location	Perpetual	Land (Freehold)		This may either appreciate or depreciate, according to location; but is seldom subject to rapid fluctuations, and often in the case of factories improvement of value is not realisable, except by costly structural changes or removals. If, in case of appreciation of land, the tenement is a shop the trade of which is directly affected, the proper division and treatment of the profit and loss account will provide for an increased debit to the trading division and an increased credit to the proprietary division, and the capital value may be charged accordingly.
Location	Fixed Term	Leases		As an annuity having regard to interest, or at discretion, on equal division of original value by the number of years to run. There being no residue of value.
Habitation	Freehold	Buildings		
		Houses	2½ o/o @ 4 o/o on diminishing values	Having always a residue of value.
		Mills	2½ o/o @ 5 o/o on diminishing values	Having always a residue of value.
Do.	Leasehold	Buildings	As an Annuity having regard to interest or at discretion, equal division of original value by the number of years to run.	This is in the case of absolute or presumed absolute term. Should there be provision for renewal or renewal by usage, as for instance, on payment of a fine of one year's annual value every twenty-one year's renewing a longer term, leasehold buildings may be treated for depreciation as if they were freehold, having always a residue of value.
MotivePower	Term of their Life	Engines, Boilers and Gearing (If treated together)	4 o/o @ 7 o/o on diminishing value	Boilers are very often, and very properly, treated separately, being subject to more frequent renewal than engines and gearing.
		Boilers if separately.	10 o/o @ 12½ o/o	
MotivePower	Term of their Life			
Producing Appliances		Moving Machinery such as Fixed Tools in Engineering Works, Spining and Weaving Machinery, &c.	5 o/o @ 10 o/o on diminshng values	Having always a residue of value.
Do.	Do.	Fixed Plant, as Blast Furnaces, Chemical Plant, &c., subject to rapid depreciation and constant repair, and of little ultimate value	Divide by the number of years upon the assumed life of the business as if it were a lease, until reduced to ultimate break up value	In these cases no charge for re-erection should be capitalised except to the extent that such re-erection is an enlargement or improvement on the old plant.
Manipulatng Appliances	Do.	Loose tools and utensils	Are subject to rating at the fullest possible range according to their nature.	They may even be treated as stock subject to valuation from balance to balance.
Do.	Do.	Furniture and Fixtures	7 o/o to 12½ o/o on diminishing values	They have always some residue of value.
Do.	Their brief term of Life	Patterns	15 o/o to 33⅓ o/o on diminishing values	Here, but for the fact that patterns constitute matter for a separate account, and the additions are numerous and constant, and the rate of depreciation high, it might be held that they be written off over a specified short term upon original cost, but amongst other reasons for not so doing, patterns have often a goodwill value.

Object of requirement.	Tenure.	Matter.	Rates.	Remarks.
Locomotion	The term of Life.	Rolling Stock	7½ o/o @ 15 o/o on diminishing values as an annuity or at discretion.	There being always a residue of value and generally a constant renewal and replacement.
Monopoly	The term of the grant	Patents and other monopolies	Divide upon the number of years of the full term of life or shorter estimated period of value	There is no residue of value except, perhaps, in the augmentation of the general goodwill of the concern.
Business connection	Uncertain	Goodwill	As an annuity or at discretion divide the purchase-money over the number of years of estimated period of value	It will often be found that proprietors who have paid for a goodwill desire to treat it of permanent value, but having regard to all the contingencies of business, it is never safe to assume it, and such premium value ought always to be written down.
Sowing Seed for future return		Opening of Mines and Quarries	As an annuity or at discretion in equal annual division over the estimated life of the Business, or estimated tonnage of mineral	In the opening of all mines and quarries, whether coal, metals, or stone, there is always a large—in most cases an immense—outlay and a long delay in preparing the way for a return of value. A normal tonnage should be estimated over a term of years taken to be the life of the undertaking. Thus, if there should be disappointment in respect of tonnage raised, the loss will be loss of capital in ultimate liquidation. Should there be a yield in excess of expectation, the rate may be reduced and discontinued altogether where break-up values have been reached.
Incidental	Immediate	Formation expenses	In equal portion on 3 to 5 years	At discretion this may be disposed of in first year, or the amount may be so small as to be thus properly dealt with; but where the amount is large, as may be the case in large transfers under deed, and where large commissions are paid, it is quite justifiable to spread the charges over a limited number of years, for the expenditure is incurred in the interest of the permanent working.

Thus underlying every illustration it will be seen that the actuarial principle, applied upon bases arbitrarily settled by the exercise of judgment founded on experience, settles the great guiding rule in the rating of depreciation.

There is one large class of expendiure which I have not yet specifically dealt with, although it is covered under the rules explained. I refer to the large sums raised from time to time on public works and for public purposes, such as dock and harbour works, county, city, and local board improvement purposes, and even national debts. The method of dealing with these is generally laid down under some special or general act of parliament. Such debts may be either permanent, or their redemption may be effected in two ways—(1) by equal annual instalments of the principal money and current interest upon the diminishing debt, or (2) on the annuity principle by equal annual payments over a fixed period.

Under the first-named plan the burden is a diminishing one, and ceases gradually. Under the latter the burden is equal upon every year of the period.

The former system has much in its favour. It is certainly more prudential than the latter, inasmuch as it takes the greater burden at the time when circumstances are sufficiently buoyant to determine the outlay, and in the event of any decay of prosperity the inheritance of responsibility from year to year is a diminished burden; and further, if prosperity continues, further expenditure and fresh loans become necesssary, and there is the greater room for bearing the cost of them.

In favour of the latter course, it is often urged that certain expenditure is in the interest of a long period extending far into the future, say sixty years, and therefore it is not fair to the present to pay more than an equal annual share of principal and interest, but upon this ruling the whole principal money might be carried on as an undiminished quantity in perpetuity. It will readily be seen how in the event of any local depression or decay the burden of such indebtedness might be fatal to the corporate existence of any given community or trust.

I trust I have not too far enlarged upon my subject, so as to take the mind from the solid apprehension of the main argument, but the subject is a large one, and it will be seen how without thoughtful applications of ascertained principles of account, and, I may add, of logic too, together with a wide-awake observation of the changing conditions arising from new processes and change of appliances and legal regulations, the experience of even the elders of the profession is never a surperfluous quantity. Suffice now the further assurance, that the cultivation of the faculty of analysis will duly develope the power of construction in relation to any questions arising under this title, as indeed of any question of account.

SHEFFIELD CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.

A meeting of Chartered Accountants, and clerks eligible to become members of the Institute of Chartered Accountants, was held at the Law Society's Rooms, Hoole's-chambers, Bank-street, Sheffield, on Monday, the 30th July last.

The meeting had been summoned for the purpose of receiving the report of the preliminary committee which was appointed to draft rules, and generally to further the business of the Society.

The rules, with one or two amendments, were unanimously adopted, and the following persons were elected officers of the Society:—President, Mr. Septimus Short, F.C.A.; Vice-President, Mr. T. G. Shuttleworth, F.C.A.; Treasurer, Mr. Henry Belk; Secretary, Mr. John W. Best; together with a Committee consisting of Messrs. S. T. Gill, A. C. A., Ralph L. Foxom, A.C.A., and Harry Short, A.C.A., as honorary members; and Messrs. E. Beardshaw, L. C. Cropper, W. B. Maxey, T. C. Parkin, H. J. Wells, and John Wortley, as ordinary members.

Messrs. H. S. Gardner and John Archer were appointed as Auditors.

A number of members were enrolled at the close of the meeting; and it was arranged that the list of first members, to be printed with the rules of the Society, should remain open until the 20th August.

INTERMEDIATE EXAMINATION, JUNE 1883.

Answers to Questions.

BOOKKEEPING.

1. "Debit" is derived from the Latin "debere" (to owe). "Credit" is derived from the Latin "credere" (to believe or trust).

Examples. Jones buys £100 worth of goods from Brown and the like value from Green, giving his acceptances at three months for the same. Jones (by his goods account) is a debtor to them for the goods they respectively supplied, while they are his debtors for the acceptances they received. They are his debtors in respect of the said acceptances, because being "negotiable instruments," other persons may appear as the "creditors on acceptances."

2. Robinson is a debtor to Smith for the wheat obtained from him, and a creditor of Smith for the cake sold to him. *Upon balance of account* Robinson is the debtor for £74 18s.

If made in the "Journal" the entries in Smith's books would be—

LONDON, 10th JUNE, 1882. 5

11	Robinson, J. .....Dr.								
	To Wheat (Goods) Account	1		80	10	0			
	38 qrs. @ 42/6 per qr.						80	10	0
	Do.								
6	Cake (Goods) Account ..... Dr.			5	12	0			
	To J. Robinson	11					5	12	0
	6 cwt. at 2d. per lb.....								

In Smith's Ledger the Account would appear

11 11

Dr. J. ROBINSON, 10, High Street, Boro', S.E. Cr.

1883.						1883.					
June	10	To Goods, Wheat	5	80	10	0	June 10	By Gds., Cake	5	5	12	0

1 1

Dr. WHEAT ACCOUNT. Cr.

							1883. June	10	By J. Robinson	5	80	10	0

6 6

Dr. CAKE ACCOUNT. Cr.

1883. June	10	To J. Robinson	5	5	12	0						

In Robinson's Journal the trnsactions would be reversed thus:

LONDON, 10th JUNE, 1883. 55

101	Wheat (Goods) Account ..... Dr.			80	10	0			
	To Smith, S.	111					80	10	0
	38 qrs. at 42/6 per qr.								
	Do.								
111	Smith, S.....Dr.			5	12	0			
	To Cake (Goods) Account	106					5	12	0
	6 cwt. at 2d. per lb.....								
	Do.								

and in his Ledger the Accounts would thus be shown :—

111 111

Dr. S. SMITH, Corn Exchange, Mark Lane, E.C. Cr.

1883.							1883.						
June	10	To Goods (Cake)	55	5	12	0	June	10	By Goods (Wheat)....	55	80	10	0

101 101

Dr. WHEAT ACCOUNT. Cr.

1883. June	10	To S. Smith..	55	80	10	0						

106 106

Dr. CAKE ACCOUNT. Cr.

							1883. June	10	By S. Smith..	55	5	12	0

3. As principal books, a Cash Book and a "Journal;" the latter divided as follows: (*a*) Purchases Book, (*b*) Sales Book, (*c*) Bills Receivable Book, (*d*) Bills Payable Book, (*e*) Petty Cash Book, and if necessary, (*f*) a Journal to complete entries not covered by either of the above. In *a* and *b* I should provide a Discount column. As subsiduary books, (*g*(Order, (*h*) Wages (with apportionment columns), (*i*) Cost (with ditto), (*k*) Outward Invoices Press Copy Book, (*l*) Guard Book for Inward Invoices, Vouchers, &c. (*m*) Delivery Book and (*n*) Stock Book.

Note.—In any case I should examine into the nature and requirements of the particular business before settling either the books or the forms thereof.

The term Day Book is by many held to be a misnomer, and appears to be arbitrarily used, sometimes to record sales, sometimes to record purchases. Cory and Carter both describe it as a Diary of the whole of every day's transactions.

Assuming the Day Book to be an Outward Invoice Book, the entries would be as follows :—

LONDON, 1st JANUARY, 1883.

15		Hughes, John, Carnarvon									
	7312	3 Plated Toast Racks	15/	2	5	0					
	7314	2 Do.	14/6	1	9	0					
	5263	1 Tea and Coffee Service, viz.									
		Coffee Pot			5	15	0				
		Tea Pot			4	5	0				
		Sugar Basin			3	13	6				
		Cream Jug			2	12	6				
					20	0	0				
		Less T/D 30 per cent. '....			6	0	0				
								14	15	0	
		2nd									
16		Pell, William, Newcastle O/T									
	903	1 Case of 12 pairs of Silver Fish-eating Knives and Forks, @ per pair, net	18/6	11	2	0					
		Case			0	13	0				
								11	15	0	
		To Ledger Folio	76					25	15	0	

25 Dr. CASH. CONTRA. Cr. 25

1883. Mch.	5	To Hughes.J., on acct	15	10	11	9	1883. Mch.	8	By Balance forward			24	6	0
„	„	„ Pell, W., on acct. ..	16	7	0	6								
„	8	„ Hughes,J, fur. on acct.	15	3	0	3								
„	„	„ Pell, W., do.	16	3	13	6								
				24	6	0						24	6	0
1883. Mch.	8	To Balance down ..		24	6	0								

Personal Ledger.

JOHN HUGHES, 1, Menai Street, Glamorgan,

General Dealer.

15 Dr. Cr. 15

1883.							1883.						
Jan.	1	To Goods	1	14	0	0	Mch.	5	By Cash	25	10	11	9
							,,	8	,, Do.	25	3	0	3
									,, Balance forward		0	8	0
		— 14 0 0 —					,,	,,	— 14 0 0 —				
Mch.	8	To Balance down				8							

WILLIAM PELL, 5, Tyne Street, Newcastle,

Fancy Shopkeeper.

16 Dr. Cr. 16

1883.							1883.						
Jan.	2	To Goods	1	11	15	0	Mch.	5	By Cash	25	7	0	6
							,,	8	,, Do.	25	3	13	6
									,, Balance forward		1	1	0
		— 11 15 0 —					,,	,,	— 11 15 0 ..				
Mch.	8	To Balance down				1							

Private Ledger.

76 Dr. GOODS ACCOUNT. Cr. 76

1883.						1883.					
Mch.	8	To Balance forward	25	15	0	Jan.	31	By Sales	1	25	15	0
						Mch.	8	By Balance down	25	15	0	

TRIAL BALANCE, 8TH MARCH, 1883.

Hughes, J. ..	15	0	8	0	Goods Accnt	76	25 15 0
Pell, Wm. ..	16	1	1	0			
Cash	25	24	6	0			
		25	15	0			25 15 0

Bills Receivable are in effect acknowledgments of indebtedness by the acceptors to the drawers, who are, or by the words "value received" or value in account" purport to be creditors of the persons on whom they draw for acceptance. Bills Payable are also acknowledgments by the acceptors of indebtedness to the drawers. In commercial parlance both are "negotiable instruments" unless the words "to order" are omitted, or being inserted, the party to whose order they are made payable has neglected to endorse them. In the hands of "third parties for value" every drawer, acceptor, or endorser, is liable for the full amount thereof, but the law provides that under certain circumstances of neglect of presentation or notice, the acceptor alone remains responsible to the holder.

Bills Receivable Book.

No. of Bill	When Receivd.	From whom received.	Drawer.	Acceptor.	To whom payble.	Where payable.	Date.	Time.	When due. Jan.	Feb.	Mch.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Amnt.	Mnthly Totals.	How dspsd of	Folio. Dr.	Folio. Cr.
1	30 Oct. 1882.	Colman & Co.	Self	Colman & Co.	Order	L. & W. Bk.	28 Oct. 1882.	4 Mos.		3											309 2 7	309 2 7		51	15
2	10 April. 1883.	M. Flight	M. Flight	Tm Cuttle	Order	U Bk. London	5 April. 1883.	3 Mos.			83				8						400 0 0	400 0 0		51	16

Bills Payable Book.

No of Bill	Drawer.	Place.	To whom payable.	Where Payable.	Date.	Time.	When due. Jan.	Feb.	Mch.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	When accptd	Amount.	Monthly Totals.	Remarks.	Folio. Dr.	Folio. Cr.
1	W. Smith	Liverpl.	Order	3 Copthall Bldgs.	1 1883. Jan.	2 Mos.			4										2 1883. Jan.	148 2 7	148 2 7		48	85

5 Dr. CASH. CONTRA. Cr. 5

			Discount.								Discount.			
1883.								1883.						
May	1	To Balance	4			8	3	3	May 8	By Wages	11		36	6	8
,,	8	,, Smith, A.	1			2	4	5	,, ,,	,, Salaries	21		5	0	0
,,	,,	,, Jones, B.	2	0	4	3	16	3	2	,, ,,	,, Petty Cash	31		2	0	0
,,		,, Bank	1				45	10	0	,, ,,	,, Robinson, C.	3	0 10 11	5	0	0
										,, ,,	,, Balance forward			23	14	2
		Dr. Discount, P.L.	42	0	4	3					Cr. Discount P.L.	41	0 10 11			
							72	0	10					72	0	10
May	8	To Balance				23	14	2								

Personal Ledger.

1 Dr. A. SMITH, 5, New Street, Oldham, Grocer. Cr. 1

								1883.						
								May.	8	By cash	5	2	4	5

2 Dr. B. JONES, 2, Old Street, Newtown, General Dealer. Cr. 2

1883.						1883.					
Jan.	1	To Balance, O.L	193	16	7 5	May	8	By Cash	5	16	3 2
						,,	,,	,, Discounh	5		4 3
			16 7 5						16 7 5		

3 Dr. C. ROBINSON, 14 Great Tower Street, E.C., Provision Merchant. Cr. 3

1883.						1883.					
May	8	To Cash	5	5	0 0	Jan.	1	By Balance, O.L	217	5	10 11
,,	,,	,, Discount	5		10 11						
			5 10 11						5 10 11		

Private Ledger.

1 Dr. UNION BANK OF LONDON, Princes Street, London, E.C. Cr. 1

						1883.					
						May	8	By Cash	5	45	10 0

11 Dr. WAGES. ACCOUNT. Cr. 11

1883.					
May	8	To Cash	5	36	6 8

21 Dr. SALARIES ACCOUNT. Cr. 21

1883.					
May	8	To Cash	5	5	0 0

31 Dr. PETTY CASH. Cr. 31

1883.					
May	8	To Cash	5	2	0 0

41 Dr. DISCOUNT. ACCOUNT. Cr. 41

1883.						1883.					
May	8	To Cash	5	0	4 3	May	8	By Cash	5	0	10 11

Answer 9.—(*a*) Cash, (*b*) Wages, (*c*) Salaries, (*d*) Petty Cash, (*e*) Discount. The Banking Account, even if not posted to the Ledger, is still a personal account, as evidenced when a bank fails and the customer ranks as a creditor.

Answer 10.—By taking out the "trading" in order to ascertain the gross profit, transferring the balance thereof to the credit of Profit and Loss Account, together with any other profits made, such as Interest, Discount, Commission, &c., and transferring to Profit and Loss Account all Business Expenses, Wages, Salaries, Discounts, Interest, Allowances, Carriage, Depreciation on Leases, Plant and Machinery. Interest on Capital (if provided for under a partnership deed), Bad Debts, &c. The balance of such Profit and Loss Account would be the profit or loss made, which profit or loss balance would be transferred to the Drawing Account, and the balance of the latter account would be transferred to Capital Account. The Balance-sheet would be made up from the personal and nominal balances in the Ledgers, including in the latter the capital, minus drawings, plus interest on capital (if allowed) and net profits, and plus the cash in hand. The creditors would be made up into one schedule, and the debtors into another.

Prior to making out either the Profit and Loss Account or the Balance-sheet I should take out a "trial balance," keeping the Personal Accounts in one column, and the Nominal Accounts in another, in order, in the first place, to prove that my books balance; and, in the second instance, in order the more easily to deal with the transfers to Profit and Loss including the depreciations, &c.

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THE

Accountants' Students' Journal.

A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

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NOTICE.

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THE

Accountants' Students' Journal.

DECEMBER 1, 1883.

NOTICE.

In consequence of having to complete the Answers to Questions in this issue, to enable those of our subscribers who intend presenting themselves for examination to form some idea of what will be required of them, we have been compelled to hold over some important matter and leaders, which will appear in our January number. In future the Institute Questions will be dealt with in rather a different manner.

STUDENTS' SOCIETY CO-OPERATION.

Referring to the communications which have appeared in this Journal on the above subject, it appears to us from the simplicity of the question an undue amount of prominence has been given to it. What can be more simple than to do as the Birmingham Society have done, viz., pass a resolution to admit by courtesy all members of kindred societies who may happen to be staying in their town? This would obviate the necessity for appointing an officer with the high sounding title of "Honorary Co-operator."

We think it is highly improbable that a member of any of these students' societies, who chanced to be staying in a town where a similar society existed, would be refused admission to a lecture or debate, on presentation of his society's card.

The Manchester Society have evidently aristocratic tendencies, together with a weakness for titles, and in future we may expect to receive communications from Mr. Co-operator Jones, or Mr. Past Co-operator Smith, as the case may be.

BOOKKEEPING.

Journal.

The other *principal book* of account is the journal, which is more frequently used in its *generic* than in its generally accepted sense, that is to say, it is a book capable of any amount of subdivision, and among the volumes which together form the journal there is often none bearing that name; indeed where the journal is so sub divided it is desirable not to apply that term to any one section thereof.

The journal is a book destined to receive the record of all transactions other than cash, such as the buying and selling of goods (on credit), the giving and taking of bills, the taking or giving of discount, &c.

There are various methods of keeping a journal; the two principal ones are the *direct* and *indirect* systems.

Under the direct system the various volumes, which together form the journal, are "sectional" or "divisional" books. Thereunder, the contents of each sectional book are posted direct to appropriate accounts in the ledger, without being first collected in a general book (journal) which exists in theory only.

In an ordinary merchant's business the sectional books would be, say:—

1 *Order Book.*
2 *Bought Book.*
3 *Sold Book.*
4 *Bills Payable.*
5 *Bills Receivable.*
6 *Bill Diary.*
7 *Petty Cash Book.*
8 *Stock Book.*
9 *Adjustments and Transfers Book.*

Nos. 1 and 6 are, however, not "books of account," but memorandum books of great importance, the one being used to ensure attention to every order received, the other for the purpose of making provision for the payment of bills payable at maturity, and for the punctual collection of bills receivable.

In the instance cited "the journal" is thus represented by seven volumes or sectional books.

Various advantages attach to the system: (*a*) the repetition of entries and consequent chance of clerical errors is avoided; (*b*) the labour of posting is much diminished, because the "contras" are found in the periodical totals either weekly, monthly, quarterly, or half-yearly. The bought book will suffice to make this clear. Goods, say to the extent of £10,000, are bought

(on credit) from twenty persons during the month of January. Each transaction is entered as it arises, the vendor being credited therewith, and such credit is posted to his account in the ledger. The amounts of such credits are cast up and carried forward to the end of the month, when the total is posted to the debit of goods account. No balance could, in fact, be obtained until this counterweight had been brought into the scale.

The Stock-book (8) is frequently used at stock-taking periods only, in order to ascertain the particulars and value of the stock in hand. A stock-book may, however, be so kept as to show both quantity and cost of every article purchased, and the quantity, cost, and selling price of every article sold. In the latter instance it is a valuable check upon the trading, and affords easy means of ascertaining that every parcel of goods has been duly accounted for; such a stock-book must of necessity be ruled to suit the peculiarities of each business; *p. e.* where all goods are recorded by the gross or by fractions thereof (such as ½-gross, ¼-gross, &c.) one column will suffice for a check on the quantities, but where some goods go by weight, others by measurement, and others by number, appropriate columns must be provided.

No. 9, the Adjustment and Transfer-book, is really what some people would call a journal, *i.e.* it is used to put in items for which the other volumes do not provide. For instance, if a transfer had to be made from one account to another, or a special allowance had been taken, it would be entered therein. In like manner the settlement of Profit and Loss and of Drawing and Capital Accounts would be effected through this channel.

The other *sectional* books are dealt with in a similar manner, and thus a result is obtained with the minimum of labour.

The *direct* system cannot, however, always be employed; the nature of some businesses does not permit of it. For instance, it could not be adopted in a business with branch establishments, where the books are kept at the head office. Each branch would, of course, have its separate books to keep, and the returns extracted from such separate books would be worked into the general books at the head office. In such a case the *indirect* system would be utilised.

Under the *indirect* system, taking the same books, 9 minus 2, as the volumes used as books of original record, a different order of things would appear, because the contents of such books would be collected in condensed form in the journal proper. They would, therefore, be *subsidiary* to the journal as *supplementing* the information contained in the latter, the postings being effected not from the subsidiary books but from the journal itself.

The risk of clerical error by duplication of entries (although in condensed form) is therefore a consequence of this system, but a methodical bookkeeper surmounts this objection by checking as he proceeds with his work.

Labour is increased thereby, but, as already stated, this objection has to give place to the higher policy of adapting the bookkeeping to the circumstances and necessities of the case.

There are various other methods which are combinations and modifications of the above two systems; for instance, the Bought, Sold, and Stock books may be posted direct, and the remaining volumes be collected by re-entry into the journal. In such a case "the Journal" is composed of four volumes, of which three are *direct*, and the fourth is *supplemented* by the Bills Payable, Bills Receivable, and Petty Cash books, the adjustments and transfer entries being made direct in the journal.

The common form of ruling for a journal is, working from right to left, two red money columns—the outside one for credits, the inside one for debits—red credit posting folio, blue money column, full space for particulars and debit posting folio. The blue money column is written over when not required, but is of great use for explanatory castings, &c. Great care should be taken to make the headings of account bolder than the rest of the writing, and to confine everything to its appropriate space, not running the writing into money or posting columns, &c. Journal entries are written in various ways, and no particular form is obligatory so long as clearness is adhered to. There are, however, many forms of journal. That selected should be the one most suited to what is required to be done.

In like manner the divisions of a journal must be ruled to suit the circumstances. For purchases and sales, that mentioned for the journal is convenient, unless special information is required, for which, of course, appropriate ruling must be afforded.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

The following letter has been addressed to the secretaries of the various Students' Societies:—

Sir,—Referring to a previous communication of mine on the subject of co-operation, I should be glad if you would make known to your Society that for the time being I have been appointed to the office of co-operator for this Society, and shall be happy if your members would note down my address, so that in event of their requiring information they may communicate or wait upon me.

Yours, &c.

A. E. Piggott,
Hon. Sec. and Hon. Co-operator.

Manchester, Nov. 13th, 1883.

Letters to the Editor.

Reduction of Currency to Decimals.

To the Editor of The Accountants' Students' Journal.

Sir,—Referring to the letter of Mr. A. E. Bach, appearing in this month's issue, with regard to the above subject, I think it is advisable to point out a slight error in the working of the second example, wherein it appears

that 7½d.=28 farthings. It is obvious that this should be 30, or, with the 1 added, ·31; and, consequently, the answer should be ·831.

I may add that I have always found it more conducive towards accuracy when converting currency into decimals to add 2 instead of 1 when the pence exceed 10; and, when performing the reverse operation, to deduct 2 when the second and third places of decimals exceed 39.

Yours, &c.

ERNEST WRIGHT.

London, Nov. 2nd, 1883.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

At a meeting of the Council held on the 7th November, the following were elected associates:—

Frederick William Lord, Wardrobe Chambers, Doctor's Commons, E.C.

Robert Fletcher Allured, Clerk to Broome, Murray & Co., 104 King Street, Manchester.

Backhouse Hindley Bindloss, Clerk to Thomas, Wade, Guthrie & Co., 32 Brown Street, Manchester.

John George Dennehy, Clerk to H. H. Ham, Albion Chambers, Bristol.

John George Hodgson, Clerk to John Bewley & Sons, 11 Orange Court, Liverpool.

Richard Hornby, Clerk to Davies and Crane, 5 Winckley Street, Preston.

Charles James March, Clerk to Deloitte, Dever, Griffiths & Co., 4 Lothbury, E.C.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY.

"HOW TO OPEN A SET OF BOOKS."

(*Continued from No. 7, page 136.*)

PURCHASES BOOK.

In the form I have selected the invoices are daily entered, on receipt, in this book, and are then numbered and put upon a file, or pasted in a book. The total amount of the invoice is entered in the total column, and is then analysed under the various headings. The descriptions of the heading have to be very carefully considered, as they form the nominal accounts in the Private Ledger, and, later on, the sub-headings of Purchases in the Trade Account. In a small business like the present one some half-dozen headings will be sufficient, but in concerns of a larger or more complicated nature as many as from ten to fifteen may be required, and in such cases it is desirable to have some of the minor headings under the title of Sundries, and to analyse them in a Summary at the end of the month.

The balancing of the Purchases Account for the month is proved by the fact that items to the amount of £128 7s. 9d. are posted to the *credit* of the tradesmen from whom goods are purchased, whilst an alysed items, forming a total of £1287s. 9d., are posted to the *debit* of the nominal accounts of the Private Ledger.

There is a variation of this system of Purchases Book, which does not affect its principle, and which in many cases I recommend to clients. The difference consists in having a large Purchases Book, in the form of a Guard Book, in which the invoices themselves are pasted as soon as received. Whether it is advisable to do this or not depends entirely upon the individual circumstances of the business. Difficulty often arises in either case, from the fact that monied invoices are not sent with the goods supplied, and an accountant cannot too strongly advise his client to insist upon having such invoices in all cases with goods bought. No business can be properly conducted unless this is done, and clients, acting upon my advice, have frequently declined to take in further goods from tradesmen who do not deliver monied invoices.

I have now completed the books in which the transactions of Mr. John Griffiths are chronologically recorded, viz.:

Cash Book,
Sales Book,
Purchases Book.

These books, although containing all the facts, are yet incomplete, as they do not show—

(1.) The position in which Mr. Griffiths stands with his Creditors and Debtors.

(2.) The classification and results of his trading.

To meet these requirements, it is necessary to have Ledgers. The state of the Debtors'Accounts is shown in the *Sales Ledger*. The state of the Creditors' Accounts is shown in the *Purchases Ledger*.

The classification of the business done under the usual nominal headings, together with the Bank Account, and the accounts of capital, drawings, &c., are shown in the *Private Ledger*, which I have so designated for reasons which I will afterwards explain.

SALES LEDGER.

Referring more in detail to the above, I would recommend that only one money column be provided, unless there are special reasons for a larger number. Also it is desirable that a monthly balance be struck, unless the accounts are payable quarterly. The postal address of the customer should always be recorded after his name, so that a separate address book will not be required when the customers' invoices are being prepared for sending out. Any detailed description of my form of Sales Ledger is not required. The *debit* items are in every case brought from the Sales Book, and the *credit* items are posted from the *debit* side of the Cash Book.

You will notice that I have recorded in the form of a memorandum the particulars of *the terms* upon which each account is placed, and I would always advise having these recorded in the Ledger itself rather than in a separate memorandum book.

PURCHASES LEDGER.

Several of my remarks under the last heading apply to this book also, which is to be kept almost exactly in the same form as the Sales Ledger.

The *debit* entries in this case consist of items posted from the *credit* side of the Cash Book, and the *credit* entries of goods received, and posted from the Purchases Book.

PRIVATE LEDGER.

We now come to the book which I have called as above, because in a small business it is necessary to combine in one the particulars which in a larger concern would require two Ledgers, viz. the Nominal and Private Ledgers. I have chosen the latter title as being on the whole more suitable for a book which, besides containing the Nominal Accounts of Sales, Purchases, and Expenses, is a record of the position of the Bank Account, the Capital Accounts, and other Accounts which can hardly be described as nominal. The first is the Capital Account, which is credited with the £500 paid into the business by Mr. Griffiths at starting, also with the profit made during the month. After debiting this account with the drawings, the Balance shows his Capital at the end of the month, which agrees with the Balance Sheet.

Next follows the account of Plant and Fixtures. No depreciation has been written off this account, but if this had been done a Depreciation Account would have been opened, and debited with the amount fixed and Plant Account credited; the transfer being made direct from the one account in the Private Ledger to the other.

The Bank Account and the Drawing Account call for no special comment, and then follow the various Nominal Accounts of Expenses and Purchases, the former of which find their way here direct from the Cash Book, and the latter from the analysed totals of the Purchases Book. The next account

is that of Discounts, both allowed and received, the amounts of which are posted from the debit and credit totals of the Discount column in the Cash Book respectively. The Sales Account, as previously explained, is posted from the Sales Book. All these Nominal Accounts of Sales, Purchases, and Expenses, are next carried by transfer of the balances to the

TRADE ACCOUNT,

which is thus made part of the bookkeeping, and the balance of which has to be transferred either to the debit or credit of Capital Account—if a loss, to the debit; and if a profit, to the credit. Before, however, this important account is made out, it is desirable to draw out a

TRIAL BALANCE.

This is done by first of all taking out the Balances of the Sales and Purchases Ledger, under the heads of Debtor and Creditor. Then the Private Ledger Balances should be struck as in my memorandum, and the Balance of Cash in hand being inserted, the total of the Debtor and Creditor columns of the Trial Balance should agree. If this is the case, the correctness of the postings is proved, but if not some error exists, and the bookkeeper must not rest until he has discovered it by careful checking of his postings and additions. Having balanced the various items of the Trial Balance they have either to be transferred to the Trade Account or recorded in the Balance Sheet. The

BALANCE SHEET

is a Memorandum Account only, the balance it contains being merely gathered together or recorded to show the state of the Liabilities and Assets, and the individual balances still remaining in the books, and forming the starting point for the next year, or other period after the stock-taking.

I have now referred to all the principal features of the set of accounts which you have before you, but I shall be very pleased to answer any questions which students may like to put to me, either as to matters of principle or of detail. Possibly students here may suggest improvements or alterations in the accounts, and if so, I should be pleased if they will do so.

PURCHASES BOOK.

1 August 1883 1

Date.	Name.	Invoice No.	Folio.	Total.	Iron and Steel.	Brass Furniture and Locks.	Files.	Carriage.	Printing and Stationery.	Sundries
1883.										
August 1	W. H. Armfield	1	27	5 4			5 4			
,, ,,	Thomas Sneath	2	28	17 19 0		17 19 0				
,, 5	William Hickling	3	139	14 3 0	14 3 0					
,, 7	W. H. Armfield	4	27	15 1			15 1			
,, ,,	London and North Western Railway	5	140	1 2 3				1 2 3		
,, 12	William Hickling	6	139	43 7 0	43 7 0					
,, 21	London and North Western Railway	7	140	17 9				17 9		
,, ,,	C. W. White and Co.	8	217	4 9 6					4 9 6	
,, 22	W. H. Armfield	9	27	4 2			4 2			
,, 23	G. H. Graham	10	218	3 1						3 1
,, ,,	F. Lort	11	,,	5 7						5 7
,, 27	A. Armstrong..	12	,,	3 2 6						3 2 6
,, 31	William Hickling	13	139	10 19 0	10 19 0					
,, ,,	Henry Wolverson	14	301	17 6 0						17 6 0
,, ,,	Thomas Sneath	15	28	12 3 0		12 3 0				
,, ,,	London and North Western Railway	16	140	1 5 6				1 5 6		
				128 7 9	68 9 0	30 2 0	1 4 7	3 5 6	4 9 6	20 17 2

SALES LEDGER.

31 32

Dr. S. CHAVASSE & Co., Merchants, Birmingham. 5 o/o Discount Monthly. Cr.

Dr. A. F. FELLOWS, Gas and Water Engineer, Hounslow. Net. Cr.

1883.					1883.						1883.						1883.					
Aug. 1	To Goods ...	1	6	14 5	Aug. 8	By Cash ...	1	6	7 9		Aug. 10	To Goods ...	1	36	0 0		Aug. 12	By Cash.....	1	36	0 0	
,, 27	,, ditto ...	2	9	7 6	,, ,,	,, Discount	,,		6 8													
					,, 31	,, Balance	31	9	7 6													
			16	1 11				16	1 11					36	0 0					36	0 0	
Sept. 1	To Balance	31	9	7 6																		

173 174

Dr. HORTON & HILL, Merchant, London Bridge, London. 5 o/o Discount Monthly. Cr.

Dr. W. TAYLOR, 376 Broad Street, Birmingham. 2½ o/o Discount Monthly. Cr.

1883.					1883.						1883.						1883.					
Aug. 6	To Goods ...	1	6	19 9	Aug. 8	By Cash ...	1	6	12 9		Aug. 20	To Goods ...	2	4	14 0		Aug. 21	By Cash ...	1	4	11 8	
,, 14	,, ditto ...	2	21	9 0	,, ,,	,, Discount	,,		7 0								,, ,,	,, Discount	,,		2 4	
					,, 31	,, Balance	173	21	9 0													
			28	8 9				28	8 9					4	14 0					4	14 0	
Sept. 1	To Balance	173	21	9 0																		

493 **SALES LEDGER**—*Continued.* 494

Dr. BRITISH BANKING COMPANY, LIMITED, London. Cr.

5 o/o Discount.

1883.						1883.					
Aug. 17	To Goods ...	2	70	0	0	Aug. 21	By Cash ...	1	133	0	0
,, 18	,, ditto ...	,,	70	0	0	,, ,,	,, Discount	,,	7	0	0
			140	0	0				140	0	0

Dr. A. NEWNHAM, Sutton. Cr.

Net.

1883.						1883.					
Aug. 31	To Goods ...	2	6	0	0	Aug. 31	By Balance	494	6	0	0
			6	0	0				6	0	0
Sept. 1	To Balance	494	6	0	0						

I have purposely prepared these accounts on the simplest and most elementary plan possible, as a student who has once mastered this system will have no difficulty in working into it any further special matters, such as Bill Transactions, Returned Cheques, Returned Sales, Depreciation Accounts, Bad Debt Accounts and Reserves, and numerous other additional and supplementary accounts to those which I have given you in the model. It would, of course, have been impracticable to have entered fully into all these matters with the limited time and space at my disposal, but I will refer to some of them before concluding under the head of

SUBSIDIARY BOOKS.

These are books which, although necessary as books of record, do not form part of the book-keeping proper; they, of course, differ very much with each class of business, and I will confine myself to those usually required in manufacturing concerns. The first of these is the

PETTY CASH BOOK.

A small-sized Book with a single money column will be the most convenient form. The Petty Cash payments are added up either weekly or monthly, and the totals carried into the main Cash Book.

BILLS RECEIVABLE.

These should be treated in the same way as cheques, and a small record book, with suitable columns, ruled as follows:—

BILLS

No.	When received.	From whom received.	By whom drawn.	On whom drawn.

RECEIVABLE.

Where payable.	Date.	Time.	When due.	Amount.	To whom paid.

BILLS PAYABLE.

These should be passed through the Cash Book by being entered on the debit side, and posted from thence to the Credit of Bills Payable Account in the Private Ledger The amount of the bill is also to be entered on the credit side of the Cash Book, and posted from thence to the debit of the account of the Tradesman in the Purchases Ledger in whose favour the bill has been drawn. A record book has also to be provided with the following ruling:

BILLS

No.	By whom drawn.	To whom payable.	Where payable.

PAYABLE.

Date.	Time.	When accepted.	When due.	Amount.	To whom paid.

PURCHASES LEDGER.

27 28

Dr. W. H. ARMFIELD, Loveday Street, Birmingham. Cr.

1883.						1883.					
Aug. 22	To Cash ...	2	1	3	4	Aug. 1	By Goods ...	1	5	4	
,, ,,	,, Discount	,,		1	3	,, 7	,, do.	,,	15	1	
						,, 22	,, do.	,,	4	2	
			1	4	7				1	4	7

Dr. THOMAS SNEATH, Lock Manufacturer, Willenhall. Cr.

1883.						1883.					
Aug. 1	To Cash ...	2	17	1	0	Aug. 1	By Goods ...	1	17	19	0
,, ,,	,, Discount	,,		18	0	,, 31	,, do. ...	,,	12	3	0
,, 31	,, Balance	28	12	3	0						
			30	2	0				30	2	0
						Sep. 1	By Balance	28	12	3	0

139 140

Dr. WILLIAM HICKLING, Iron Master, West Bromwich. Cr.

1883.						1883.					
Aug. 22	To Cash ...	2	54	12	6	Aug. 5	By Goods ...	1	14	3	0
,, ,,	,, Discount	,,	2	17	6	,, 12	,, ,, ...	,,	43	7	0
,, 31	,, Balance	139	10	19	0	,, 31	,, ,, ...	,,	10	19	0
			68	9	0				68	9	0
						Sept. 1	By Balance	139	10	19	0

Dr. London and North-Western Railway Company, Birmingham. Cr.

1883.						1883.					
Aug. 22	To Cash ...	2	1	2	3	Aug. 7	By Carriage	1	1	2	3
,, 31	,, Balance	140	2	3	3	,, 21	,, do. ...	,,		17	9
						,, 31	,, do. ...	,,	1	5	6
			3	5	6				3	5	6
						Sept. 1	By Balance	140	2	3	3

217 218

Dr. C. WHITE & Co., Printers, Carr's Lane, Birmingham. Cr.

1883.						1883.					
Aug 29	To Cash ...	2	4	5	0	Aug. 21	By Goods ...	1	4	9	6
,, ,,	,, Discount	,,		4	6						
			4	9	6				4	9	6

Dr. SUNDRIES ACCOUNT. Cr.

1883.						1883.					
Aug. 31	To Cash ...	2		3	1	Aug. 23	By G. H. Graham	1		3	1
,, ,,	,, do.	,,		5	7	,, ,,	,, F. Lort ...	,,		5	7
,, ,,	,, Balance	218	3	2	6	,, 27	,, A. Armstrong	,,	3	2	6
			3	11	2				3	11	2
						Sept. 1	By Balance ...	3	3	2	6

301 **PURCHASES LEDGER**—*Continued.*

Dr. HENRY WOLVERSON, Varnish Manufacturer, Oldbury. Cr.

1883.					1883.					
Aug. 31	To Balance	301	17	6 0	Aug. 31	By Goods ...	1	17	6 0
			17	6 0				17	6 0
					Sept. 1	By Balance	301	17	6 0

1 **PRIVATE LEDGER.** 2

Dr. CAPITAL ACCOUNT. Cr.

1883.					1883.				
Aug. 31	To Transfer from Drawing Account	101	7	0 0	Aug. 1	By Capital	1	500	0 0
„ „	„ Balance carried down	2	537	17 3	„ 21	„ Profit as per Trade Account	303	44	17 3
			544	17 3				544	17 3
					Sept. 1	By Balance brought down	1	537	17 3

41 Dr. PLANT AND FIXTURES ACCOUNT. Cr. 42

1883.					1883.				
Aug. 1	To Cash, Outlay on Plant &c.	2	251	19 3	Aug. 31	By Balance carried down	41	251	19 3
			251	19 3				251	19 3
Sept. 1	To Balance brought down	42	251	19 3					

45 Dr. STOCK ACCOUNT. Cr. 46

1883.									
Aug. 31	To Stock and Materials at this date	304	31	4 3					

RETURNS BOOK.

Where there are a considerable number of items of Returned Sales it is necessary to have a special book, ruled in the same manner as the Day Book, for the purpose of recording these, and to bring the same into the bookkeeping. In ordinary cases, however, it is usual to deduct the totals of returns at the end of each month's sales. With either plan the individual items of returns must be posted to the credit of the customer's accounts in the Sales Ledger, and the total for the month to the debit of Returns Account in the Private Ledger.

It is on record that a student was once called upon to write an essay on "The manners and habits of the Chinese," and his essay when handed in was short and to the point. He wrote, "Manners they have none, and their habits are dirty." I feel in an almost similar position to this student in referring to the

JOURNAL,

for in my set of books there is no Journal. I believe this book, which in so many treatises is described as the mainspring and foundation of Double Entry, to be in ordinary circumstances totally unnecessary. In some large concerns, such as Collieries and Iron Works, where there are many departments, a Journal may sometimes be employed with advantage, as a record of the necessary transfers in charging one department with goods supplied by another, and for transfers between Nominal Accounts. In ninety-nine cases out of a hundred, however, the Journal may be safely dispensed with, and with great advantage as regards simplicity of accounts and saving of time. I believe we are indebted for the Journal to the Italian monks, who devised some most ingenious systems of keeping the books of the Venetian and Genoese merchant princes. Though it may, however, have been well suited for the business purposes of the sixteenth and seventeenth centuries, the Journal is, I imagine, quite behind the times for the requirements of modern commerce. With the exception of the special conditions stated above, I consider that all the ordinary transactions of business can be very conveniently and correctly passed directly through the other books I have mentioned without the intervention of the Journal, and, if this is so, why should we be troubled with its unnecessary intricacies?

I believe the Journal is still in some quarters looked upon with awe and reverence, and almost worshipped as a kind of goddess amongst the books, but I rather regard her as a fussy old lady, whose troublesome and officious action as a go-between and busybody has brought confusion and complication into many a good and straightforward business, which could have very well dispensed with her meddling interference.

I hope that any friends of the old lady who may be here to-night will not be offended at this attack uponher. I should be sorry to harass her declining years, and I think if she will reform her habits a little, useful work may still be occasionally found for her.

Seriously, however, I consider that one of the principal reasons that so many thousands of traders keep no proper sets of books is that they are alarmed at the complications of the systems of journalising, which they imagine are necessary if they are to have their books upon Double-Entry. The Journal has, I believe, in this way done the greatest injury both to commerce and to professional accountants, and I would strongly advise the latter only to introduce it in quite exceptional circumstances.

With regard to the practical working of the system I have described, I may add that for many years it has been employed by clients of my firm in various trades, some of a simple and others of a complicated nature. In these instances it has been found to work satisfactorily, and no inconvenience has resulted from the absence of a Journal.

I must now conclude this lecture, which has been unavoidably somewhat incomplete and superficial, but I have endeavoured to lay before the Students of this Society the system of accounts which I consider most suitable to ordinary businesses, and I trust that I have succeeded in giving some information, and in rousing an interest in a subject which is so important to Accountant Students, both with reference to the examinations they have to pass, and as affecting their future professional success.

A discussion followed and numerous questions were put by Students to Mr. Carter, and answered by him. A vote of thanks to the Lecturer and the Chairman concluded the proceedings.

PRIVATE LEDGER.—*Continued.*

51 DR. UNITED BANK LIMITED ACCOUNT. CR. 52

1883.							1883.							
Aug. 1	To Cash	2	500	0	0		Aug. 1	By Smith	1	251	19	3		
„ 8	„ do.	„	13	0	6		„ „	„ Sneath	„	17	1	0		
„ 12	„ do.	„	36	0	0		„ 8	„ Wages	„	20	0	0		
„ 21	„ do.	„	133	0	0		„ 15	„ Wages	„	22	0	0		
						682 0 6	„ 22	„ Armfield	„	1	3	4		
							„ „	„ Hickling	„	54	12	6		
							„ „	„ L. & N. W. R.	„	1	2	3		
							„ „	„ Wages	„	20	0	0		
							„ 29	„ Anderson	„	8	0	0		
							„ „	„ Corporation	„	3	1	6		
							„ „	„ White	„	4	5	0		
							„ „	„ Wages	„	19	0	0		
													422	4 10
							„ 31	„ Balance carried down	51				259	15 8
						682 0 6							628	0 6
Sept. 1	To Bal. brought down	52				259 15 8								

101 DR. DRAWINGS ACCOUNT. CR. 102

1883.							1883.							
Aug. 15	To Cash	2	3	10	0		Aug. 31	By Transfer to Capital Account	1				7	0 0
„ 29	„ do.	„	3	10	0									
						7 0 0								
						7 0 0							7	0 0

121 DR. WAGES ACCOUNT. CR. 122

1883.							1883.							
Aug. 8	To Cash	2	18	3	6		Aug. 31	By Transfer to Trade Account	303				73	7 6
„ 15	„ do.	„	17	19	0									
„ 22	„ do.	„	19	2	0									
„ 29	„ do.	„	18	3	0									
						73 7 6								
						73 7 6							73	7 6

151 DR. RENT, RATES, TAXES, GAS, WATER & INSURANCE ACCOUNT. CR. 152

1883.							1883.							
Aug. 29	To Cash. Rent	2	8	0	0		Aug. 31	By Transfer to Trade Account	303				11	1 6
„ „	„ do. Rates	„	1	14	0									
„ „	„ do. Gas	„	0	19	0									
„ „	„ do. Water	„	0	8	6									
						11 1 6								
						11 1 6							11	1 6

167 DR. INCIDENTAL EXPENSES ACCOUNT. CR. 168

1883.							1883.							
Aug. 8	To Cash	2	0	3	5		Aug. 31	By Transfer to Trade Account	303				1	0 2
„ 15	„ Do.	„	0	14	0									
„ 22	„ Do.	„	0	2	9									
						1 0 2								
						1 0 2							1	0 2

213 DR. IRON AND STEEL ACCOUNT. CR. 214

1883.							1883.							
Aug. 31	To Purchases Book	1				68 9 0	Aug. 31	By Transfer to Trade Account	303				68	9 0
						68 9 0							68	9 0

217 DR. BRASS FURNITURE AND LOCKS ACCOUNT. CR. 218

1883.							1883.							
Aug. 31	To Purchases Book	1				30 2 0	Aug. 31	By Transfer to Trade Account	303				30	2 0
						30 2 0							30	2 0

219 Dr. FILES ACCOUNT. Cr. 220

1883.			£	s	d	1883.			£	s	d
Aug. 31	To Purchase Book. ...	1	1	4	7	Aug. 31	By Transfer to Trade Account	303	1	4	7
			1	4	7				1	4	7

223 Dr. CARRIAGE ACCOUNT. Cr. 224

1883.			£	s	d	1883.			£	s	d
Aug. 31	To Purchases Book ..	1	3	5	6	Aug. 31	By Transfer to Trade Accoont	303	3	5	6
			3	5	6				3	5	6

227 Dr. PRINTING AND STATIONERY ACCOUNT. Cr. 228

1883.			£	s	d	1883.			£	s	d
Aug. 31	To Purchases Book ..	1	4	9	6	Aug. 31	By Transfer to Trade Account	303	4	9	6
			4	9	6				4	9	6

231 Dr. SUNDRY PURCHASES ACCOUNT. Cr. 232

1883.			£	s	d	1883.			£	s	d
Aug. 31	To Purchase Books ..	1	20	17	2	Aug. 31	By Transfer to Transfer to Trade Account	303	20	17	2
			20	17	2				20	17	2

235 Dr. DISCOUNTS, INTEREST, AND BANK CHARGES ACCOUNT. Cr. 236

1883.			£	s	d	1883.			£	s	d
Aug. 31	To Discounts allowed, 1 Month	1	7	16	0	Aug. 31	By Discounts received, 1 Month	2	4	1	3
						,, ,,	,, Transfer to Trade Account	303	3	14	9
			7	16	0				7	16	0

239 Dr. SALES ACCOUNT. Cr. 240

1883.			£	s	d	1883.			£	s	d
Aug. 31	To Transfer to Trade Account	304	231	4	8	Aug. 31	By Sales. 1 Month..	2	231	4	8
			231	4	8				231	4	8

301 Dr. BALANCE SHEET. 31st August 1883. Cr. 302

Folio	Liabilities.	£	s	d	£	s	d	Folio	Assets.	£	s	d	£	s	d
	To Amount due to Creditors ..				45	13	9		By Amount due from debtors....				36	16	6
	,, *Capital*—							41	,, Plant and Fixtures				251	19	3
2	Capital at 1st August, 1883..	500	0	0				45	,, Stock and Materials at Cost ..				31	4	3
101	*Less* Amount drawn out	7	0	0				51	,, Cash at Bank				259	15	8
		493	0	0				1	,, Cash in hand				3	15	4
2	*Add* Profit as per Trade Account	44	17	3											
					537	17	3								
					583	11	0						583	11	0

303 Dr. TRADE ACCOUNT. From 1st to 31st AUGUST, 1883. Cr. 304

	To Purchases—		£	s	d	£	s	d		By Sales	239	£	s	d	£	s	d
	Iron and Steel	214	68	9	0					,, Stock and Materials in hand	45				231	4	8
	Brass Furniture & Locks	218	30	2	0										31	4	3
	Files	220	1	4	7												
	Printing and Stationery	228	4	9	6												
	Sundries	232	20	17	2												
						125	2	3									
	,, Wages	122				73	7	6									
	,, Incidental Expenses	168	1	0	2												
	,, Discounts, Interest, and Bank Charges	236	3	14	9												
	,, Carriage	224	3	5	6												
						8	0	5									
	,, Rents, Rates, Gas, Water and Insurance	152				11	1	6									
	,, Profit	2				44	17	3									
						262	8	11							262	8	11

JOHN GRIFFITHS.

Trial Balance, 31st August, 1883.

		Dr.			Cr.		
2	Capital Account				500	0	0
41	Plant Account	251	19	3			
51	United Bank Limited	259	15	8			
101	Drawings	7	0	0			
121	Wages	73	7	6			
151	Rents, Rates, Taxes, Water, &c.	11	1	6			
167	Incidental Expenses	1	0	2			
213	Iron and Steel	68	9	0			
217	Brass, Furniture, and Locks	30	2	0			
219	Files	1	4	7			
223	Carriage	3	5	6			
227	Printing and Stationery	4	9	6			
231	Sundry Purchases	20	17	2			
235	Discounts, Interest and Bank Charges	7	16	0	4	1	3
239	Sales				231	4	8
	Debtors	36	16	6			
	Creditors				45	13	9
	Cash in hand	3	15	4			
		780	19	8	780	19	8

Debtors and Creditors, 31st August, 1883.

		Debtors.			Creditors.		
	Sales Ledger.						
31	S. Chavasse & Co.	9	7	6			
173	Horton and Hill	21	9	0			
494	A. Newnham	6	0	0			
	Purchase Ledger.						
28	Thomas Sneath				12	3	0
139	William Hickling				10	19	0
140	London & North Western Railway				2	3	3
218	Sundries				3	2	6
301	Henry Wolverson				17	6	0
		36	16	6	45	13	9

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

Death Duties—Old and New.

The ninth general meeting of the members of the Manchester Accountants' Students' Society was held at the Old Town-hall, Manchester, on Monday evening, the 22nd October, 1883. The President, Adam Murray, Esq., F.C.A., occupied the chair, and there were about forty members present.

The Secretary, Mr. Arthur E. Piggott, read the minutes of the previous meeting, which were declared correctly recorded.

The President introduced Mr. John Thomas, F.C.A., of the firm of Messrs. Thomas, Wade, Guthrie & Co., who delivered the following lecture on "Death Duties—Old and New."

I have been asked to give a paper to your society, and, because I see in this organization another indication of the intelligence and promise which is being attracted to our profession, I undertake it with no reluctance, although well-nigh a whole generation has passed away since I addressed a gathering of young men, myself being one of the number. But meanwhile there has been great development. Our populous city now maintains not only a large number of societies aiming at mutual improvement, but, with commendable zeal, you have established yours specially, as I understand it, to give aid to its members towards attaining a high order of professional skill, intelligence and character. Warmly sympathising in such aims, and desiring to offer some contribution to its purpose, I have selected as our topic this evening the ways *old* and *new*, by which a revenue has been raised by rulers on the death of subjects, and upon the property from which that event took them.

Now I have no idea of travelling through all countries and all times so as to narrate, however briefly, the various modes in which taxation has been levied under the circumstances in question—the *old* to be spoken of this evening is to be limited to what has been done within our own country, and by the predecessors of the present Chancellor of the Exchequer; and the *new* in like manner, it is intended shall refer only to the present regulations, under which duties are now payable at the various Probate Registries in the United Kingdom, and at that stately pile of buildings in London known as Somerset House. To attempt more on this occasion would risk being tedious.

I must, however, with all frankness state how it comes about that I have selected this subject for our evening's consideration, and I therefore desire to explain that, almost ever since I came to know that man was *born to be taxed*, I have taken rather a keen interest in considering whether the kind of tax of which we are to speak is fairly levied, and though I am conscious that this society knows nothing of politics, or polemics—a condition which of course I shall scrupulously respect—I feel sure my views may be expressed without wounding the susceptibilities of the most sensitive young politician in the room. *Here* certainly we have no partizanship: for what we seek is knowledge for its usefulness, and the cultivation of a judicial frame of mind, because of its professional requirement, and its advantages in our search for truth.

The closing years of the 17th century witnessed the prosecution of a vigorous war between this country and our nearest neighbours, and the finance minister of that day secured the passing of an Act granting duties upon burials, the amount of which was graduated according to the social rank of the deceased—the burial fee, *e.g.*, for the wife or widow of a duke or archbishop was £50 4s.; eldest son, £30 4s.; younger children, £25 4s. In the family of a marquis this was fixed at £10; an esquire, £5 4s.; a gentleman, 24s.; persons of £50 a year, or £600 personal estate, 14s.; for burials, and so on, of which more particulars may be gathered in a work by Sir John Sinclair, on the "History of the Revenue."

It would seem, however, that this tax was found not to be so productive as was looked for—or was unpopular—and in consequence it was soon dropped; but another originated at the same time was destined to much longer life, and indeed survives, though in an enlarged form, to our own day.

This Act, passed in 1694, is called with significant simplicity "An Act for granting to their Majesties (William and Mary it will be remembered) several dutyes upon vellum, parchment, and paper, for four years, towards carrying on the war against France," and by it the sum of 5s. was payable per skin upon which any probate of a will or letters of administration for any estate above the value of £20 should be written. This modest sum of 5s. was soon increased to 10s., and by and by a still larger increase took place, until, in 1804, a very great alteration was made, and tables were issued providing for a possible estate of half-a-million of money—a very large sum indeed in those days. This charge, however, was limited to the *personal* estate of the deceased, and was not then, nor is it now, made applicable to *real* estate, and it is this exemption which has ever appeared to me to be simply and completely indefensible.

These duties were originally payable through the various Bishoprics of the country, with often a cumbrous mode of procedure, and as a consequence in the case of many small estates—and of course the majority of estates are small—operated oppressively. I well remember some thirty years ago an instance of this kind coming within my own experience.

A relation of mine had died intestate, leaving only a small

leasehold house, and its very humble equipment of furniture. To give a title to the house, letters of administration had to be taken out in the diocese of Exeter, and in due time the solicitor's charge for this instrument was rendered, consisting of many items, and reaching an amount which was certainly large, and appeared excessive.

I accordingly wrote to this gentleman, making what I regarded as an appropriate complaint, and intimating that unless the charges were reduced, I should probably make some public observations with regard to this affair. A few days made me wiser! A prompt reply came, telling me that the little dwelling-house being situated in a district called "a peculiar," heavier costs were unavoidable; and as this defence suggested such mysterious possibilities, I thought it best to let my reforming ardour die, and so abstained from ventilating my grievance in the public journals. The class of courts then in existence, however, and known as Prerogative, Consistory, Peculiar, &c., were undoubtedly a source of much dissatisfaction, and so the country, in 1858, readily accepted the measure which swept them all away, and then began those Courts of Probate now established in all important centres, which I believe are everywhere doing their work well and suitably.

Turning our glance backward it is found that the national expenditure growing, in 1780, a duty was charged upon every *receipt* given for property inherited by will or intestacy, and this was once or twice changed prior to the year 1796, when Wm. Pitt succeeded in carrying a measure of a larger character.

Turgot, one of the greatest of French Ministers, had a favourite saying that the art of taxing was the art of plucking the goose without making it cry, and Wm. Pitt is said to have remarked, on introducing his measure, that he was about to propose a tax with which no man *living* had a right to find fault. This of course was a piece of pleasantry; but the object of the measure was to make all personal property passing by death liable to the tax according to the degree of consanguinity of the beneficiary, except that grand parents and children were exempt, and so continued until 1805, when they were made liable to a duty of 1 per cent. The intention of Mr. Pitt had been to extend the tax to real estate also, and though only meagre and unsatisfactory reports of the debates of the period are in existence—for as yet Hansard was not, and the reporters' gallery was not—we know, however, that the landowning influence prevailed even against the immense power of Mr. Pitt, and it was reserved for a now living statesman, in 1853, to put an end to this inequality—for the extension of legacy duty to real estate in 1805 was limited to such as was expressly directed to be sold, or to sums charged thereupon. The accounts required by the Legacy Duty Act—technically known as residuary accounts—are certainly most comprehensive, because they are to contain not only an account of what personal property the deceased left, but also the income arising therefrom up to the time of rendering it, and if I am not mistaken most solicitors have found it desirable to go to an expert in such matters for their preparation. In Manchester, for example. it has been said this has been almost universally the rule, and I have been informed that a gentleman recently dead—and dying I remember with regret whilst yet in his prime—had quite a large practice in this kind of business. At first, and indeed for the long period from their first initiation until I think some three or four years since, such accounts had to be forwarded to Somerset House through the local stamp offices of the country, or through agents in London, the forms issued by the government containing the notification "Any account transmitted by post, or left under cover at the office, will either be returned to the parties or otherwise thrown aside unnoticed;" but the convenience and certainty of modern postal communications has become recognised even at Somerset House, and the new order of things is to *invite* the transmission by post, for all the forms now issued in relation to legacy and succession duty contain space for the names and addresses of the person who forwards the account, and my own experience of this concession is that it leaves little or nothing to be desired, except perhaps greater promptitude in the reply and return of papers; but obviously the outsider does not know the amount of work each of the examining clerks has to get through in the day, and so any complaint should be expressed with hesitation. It may be remarked too, that the various forms required for the payment of duties are more easily obtainable than formerly. Every money-order office in the kingdom keeps the whole of the seven forms, and which may be had there on application.

As already stated, the desire of Mr. Pitt to extend his Legacy Duty Bill to real estate was defeated, but the national expenditure kept growing by reason of the great European contest of the early part of this century, and in 1805 duty became payable on real estate where directed to be sold; but in 1853 a very large measure was carried by Mr. Gladstone—larger in fact than was contemplated by Mr. Pitt—and, in my humble opinion, that measure was defective only in that it was not accompanied by the application of probate duty as well to real estate, but for this further measure we must apparently still wait a while longer.

The Succession Duty Act is undoubtedly a valuable contribution to the revenue of the country, but it deals tenderly with the successors in allowing the payment of duty, on the value of the life interest by eight half-yearly instalments beginning at the end of the first half year of possession; and though in this respect it resembles the payment of duty on annuities—which, however, it may be remembered are payable in four annual instalments—yet, regarded in its aspect as a legacy, the Act is more considerate than that with respect to the duty on personal estate, which, it will be recollected, is practically payable immediately that the beneficiary comes into possession.

Except in the way of effecting some minor changes, and remedying some anomalies—as for example, that with regard to the apportionment of rents, interest, and dividends—nothing, I think, occurred calling for remark until 1880, when a measure was passed abolishing the distinction as to the duty payable between probates, and letters of administration, and from the 1st of June, 1881, a number of other changes have been introduced making concessions in favour of small estates, and allowing the deduction of debts owing by the deceased, and the cost of the funeral, when making the estimate for probate of the value of the property left—a most satisfactory course, especially with regard to estates, for example, bordering on insolvency; because in this way there is a saving of interest on the money which under the old mode was absorbed by the duty, and avoiding all the trouble and cost attendant on the recovery of the sum representing the debts. The old plan in fact, had only the merit of being good for the professions practising in this matter.

Perhaps, in relation to this subject, I may be permitted to speak of my personal experience in the preparation of an account, some 30 years since, required for the Legacy Duty Office on the death of a brother of Earl Cairns, who had been a merchant in Liverpool, and died very suddenly in the midst of extensive operations in connexion with his Brazilian trade. At the moment of his death there were debts due amounting to a very large sum, and, having passed the Residuary Account, we proceeded to get back the largest part of the Administration Duty (for he had died intestate), and I recollect an interview on the occasion with the future Lord Chancellor—then at the opening of his career—but who impressed me with his exceedingly grave manner, though I had then little idea of the position to which the young barrister would by and by attain. But, gentlemen and students, is not this true of all of you? Great are the possibilities of the industrious and resolute mind; therefore, work on!

The new measure, however, is not uniformly in the way of liberality, for the exemption of duty in legacies below £20 is at an end, and thus the time-honoured bequests of £19 19s., so often the last form that friendship took—of which one has sometimes a recollection, and sometimes an experience, will probably be known no more.

But the new Act has another feature of importance, which is this. In estates paying 1 per cent. legacy duty that of

children of the deceased and their descendants—which is the case with the larger number of devolutions—in future no Residuary Account will be required, such duty having been represented by an augmentation in that on the probate, though the Inland Revenue Commissioners have powers to request documents or explanations within three years of the grant of probate or letters of administration—which is the old period within which it was obligatory to apply for any return of duty on the ground of debts; but doubtless no trouble will be given in this way unless bad faith is suspected, and the like period will in all probability be allowed for any application which the discovery of unexpected debts—or debts which have contingently arisen—may occasion.

A few words with regard to the yield of the duties we have been considering may not be out of place.

According to the returns for the year ended 31st March, 1882, the figures are:

Probate duty	£3,515,384
Legacy duty	2,804,241
Succession duty	736,344

And from 1797 to 1881, with respect to two of those duties, and from 1853, as to the other, the total yield, so far as they can be traced, is the large sum of £220,824,910—figures so enormous that they may well heighten the interest with which the subject is regarded; and, as this form of taxation will probably be permanent in this country, perhaps the youngest amongst us this evening will allow me to express for him the hope that by and by, in a fine old age, the rewards of his industry and character may enable him to leave to survivors such an estate that the duties on it to the revenue will form a noticeable addition for the year in which he shall have been gathered to his fathers.

Now I am very conscious that this brief narrative of our legislation on Death Duties still leaves every student much to trace out for himself, but happily text books on the subject are easily obtainable, and I notice one in your own library "On the Probate, Legacy, and Succession Duty Acts," by Mr. Alfred Hanson, the present energetic controller of those duties at Somerset House, which deserves pre-eminent mention as a mine of wealth on the subject. The notes and cases cited—of which latter I have counted nearly five hundred—are extremely interesting to the student, as the reports on the points raised and decided in the courts are condensed with much judgment, and to that volume especially I therefore desire to refer you.

There are, of course, older books on the subject, but these are very much superseded by recent Acts of Parliament, though some of us have a remembrance of them which will not soon die. For example, an early one by Gwynne—one of the first comptrollers at Somerset House, a thin volume but very practical; and I remember well that this book was a great favourite with one of the purest-minded men of our profession I have met with. Following this modest little book was one by Mr. C. C. Trevor—son of another comptroller at Somerset House—and the father's official position I well remember there, for to him I appealed when desiring a more liberal interpretation than the examining clerks deemed themselves authorised to concede. He impressed me as a man of great ability, and the son, in his preface, tells of the use he had made of his father's notes, as well as of his having revised the book on its passing through the press. A useful volume on the same lines was published soon afterwards by Mr. Leonard Shelford, of which I have heard solicitors speak with much commendation. All these, however, are of little value in comparison with Mr. Hanson's book, whose new edition brings before the student the later enactments and decisions, and to him, I repeat, I refer for what I have not said, or said with less lucidity than was my desire.

Various remarks were then made by Mr. Trevor, F.C.A., Mr. John E. Halliday, F.C.A., Mr. Wade, F.C.A., and Mr. Thomas, jun. (son of the lecturer), a barrister; and, a vote of thanks having been accorded, the proceedings terminated.

SHEFFIELD CHARTERED ACCOUNTANTS STUDENTS' SOCIETY.

RECEIVERS.

AT the third ordinary meeting of this society, held at the Law Society's Rooms, on the 31st inst., Septimus Short, Esq., F.C.A., (the president), in the chair, the following paper was read by Mr. T. G. Shuttleworth, F.C.A., on the subject of "Receivers."

A receiver is a person appointed "to collect and receive rents, issues and profits of land, or the produce of personal estate, or other things in question," pending litigation or proceedings. The object of the appointment of a receiver is to provide for the safety, and prevent dissipation or destruction of property, the subject of litigation.

The appointment of a receiver is a matter resting entirely in the discretion of the court. It was exercised by the Court of Chancery, upon consideration of the surrounding circumstances, which induced the court to fear that the property in question would not be preserved for its appropriate uses and ends; that there was danger of its being converted to other purposes or diminished or lost by negligence or otherwise.

The Courts of Common Law had not jurisdiction to appoint a receiver until the Judicature Act, 1873, when the jurisdiction of the Court of Chancery was transferred to the High Court of Justice. Section 25 sub. sec. 8 of that act, provides that the court may appoint a receiver by an interlocutory order, in all cases in which it shall appear to the court to be just or convenient that such order should be made. The order may be made "unconditionally or upon such terms and conditions as the court may think fit."

The Court of Bankruptcy, not being a division or part of the High Court of Justice, acquires the power of appointment of receivers and managers under the Bankruptcy Act, 1869, sec. 13, and Rules 260 and 262 of the Rules 1870.

Formerly the duties of receiver in bankruptcy devolved upon the official assignee.

Rule 299 of the Bankruptcy Rules 1870 provides: "The court shall have the same power and discretion as to the appointment, remuneration, and removal of the receiver or manager, and in the settlement of his accounts and in directing the appropriation of moneys or property in his hands, as is exercised by the Court of Chancery or as near thereto as may be."

The court will not make an appointment except upon the application of an interested party, so that where a registrar, upon an application to appoint a creditor's nominee, appointed the high bailiff, the appointment was discharged by the chief judge and the creditor's nominee substituted.

The receiver is an officer of the court, by whom he is appointed, and should have particular regard to the terms of the order appointing him.

When the appointment is made by the high court, care is, or should be, taken to see that the order clearly defines the property, over, or in respect of which, the receiver is appointed. When it is intended that the receiver should deal with property as an owner might do, or carry on any business, he is usually appointed receiver and manager. In appointments under the Bankruptcy Act, 1869, the receiver is appointed to "collect, get in, and receive" the property of the debtor, and, if a business is to be carried on, to "manage the business;" and he is ordered to take immediate possession of the property and business, and to pass his accounts at such times as may be directed by the Registrar. It is clear that the order cannot specify what the property comprises. The receiver has to find out what property belongs to the debtor, and what steps he will have to take to carry out the directions of the order. For this purpose it is important to enquire what is the effect of the appointment. In Davis *v.* Duke of Marlborough—a leading case on this subject—Lord Chancellor Eldon said:—"The rule I take to be, that the court will on motion appoint a receiver for an equitable creditor or a person having an equitable estate, without prejudice to persons who have prior estates; in this sense—without prejudice

to persons having prior *legal* estates—that it will not prevent their proceeding to obtain possession if they think proper; and with regard to persons having prior equitable estates, the court takes care in appointing a receiver not to disturb prior equities." This decision has been qualified to this extent, that a person seeking to obtain possession of property by virtue of legal estates, the property being in possession of a receiver, must first obtain leave of the court.

The appointment of a receiver does not alter the rights of any persons in respect of the property in question. The receiver has no right to interfere with property in possession of a mortgagee or other person having a paramount title.

In *re Hart*, before Mr. Registrar Brougham, the receiver pulled down notices of a mortgage which had been put up by a mortgagee in possession, and ordered the mortgagee to leave. The receiver was restrained, ordered to put up the bills again, and give up possession.

The landlord's right of distress under the provisions of the Bankruptcy Act is not affected by the appointment of a receiver, being a right given by the act under which the receiver is appointed.

After the appointment no person can acquire any control over the property of a debtor. And it has been held to be a contempt of court for a mortgagee to take forcible possession of property in the possession of the receiver, although it is in the mortgage, which is a valid security.

Under the Bankruptcy Act 1883 the effect of a receiving order is to constitute the official receiver the receiver of the property of the debtor, and to restrain all proceedings against the person, or property, of the debtor, except with the leave of the court. But the section making these provisions does not affect the power of any secured creditor to realize or otherwise deal with his security, in the same manner as he would have been entitled to do if that section had not been passed.

It has often happened that before the appointment of a receiver some person has taken possession of part of the bankrupt's property, and where his right to do so was disputed, or it was supposed that on the registration of a special resolution for liquidation, or adjudication in bankruptcy, the claim would be defeated, the receiver has been requested to apply to restrain the party and to give an undertaking to be answerable in damages. Before consenting to take such a course a receiver should very carefully consider the risk which he incurs.

In a case which came before the Liverpool county court judge, a bill of sale holder took possession of the property of the debtor, who filed his petition. A receiver was appointed and obtained an order of the court restraining the bill of sale holder from proceeding with the sale which he had advertised, the receiver giving his personal undertaking to be answerable in damages. A motion was made for a declaration that the bill of sale was void against the trustee, but it was held to be good. The bill of sale holder applied for an order that the receiver should pay damages, and the county court judge (F. P. Collier, Esq.), in delivering judgment said: "I desire to express my extreme reluctance to order a gentleman, who in my opinion was acting in good faith, and to the best of his knowledge and abilities, for the benefit of the whole body of creditors, and who was quite justified under the circumstances in trying the validity of this instrument, to pay any damages; but in asking for the restraining order, he took the risk of having the question of the validity of this bill of sale decided against him, and I think a case has been made out, and I cannot withhold damages; and accordingly the receiver was ordered to pay both damages and costs.

In *ex parte Warren* the receiver obtained an injunction to restrain the mortgagee of a brewery in possession from dealing with the stock-in-trade, and loss arose from the receiver's management. It was held that the receiver could not charge the mortgagee with the expenses of management, and that the mortgagee was, under the receiver's undertaking to answer damages, entitled to an enquiry as to the loss sustained by him through the deterioration of the property under the receiver's management.

Whether or not restraining orders will be made under the Act of 1883 in like manner as under the Act of 1869, I cannot say; but I do not think that a special manager will be made the applicant for such an order, or liable to any such risks as I have pointed out.

A receiver in bankruptcy on his appointment will proceed to take possession of the debtor's property, taking care however not to interfere with property in possession of any person who has acquired a paramount title. The receiver is entitled to the custody of the books and effects of the debtor, and the debtor or any other person having the previous custody thereof on his behalf, shall forthwith deliver the same to the receiver. Where there are goods and effects which cannot be otherwise fully secured and protected, a bailiff should be placed in charge. In the case of household furniture where the receiver has no reason to suppose that the debtor will act dishonestly actual possession is often dispensed with, but in such cases the receiver should take care to have a proper and complete inventory. The receiver will be particular to enquire of the debtor as to his property, and first as to any moneys, valuables, or securities for money or property. He should also ascertain that the property is properly insured against fire. If he finds that there are any contracts of value which ought to be proceeded with, or effects which if not realized will cause serious loss to the estate, the receiver should report the facts to the solicitor in the matter that he may apply to the court for such order as may be necessary, or for the receiver to be appointed manager.

Although expenses ought not to be incurred by a receiver, without an order of the court, if he does incur expenses they will be allowed if the expenditure was beneficial to the creditors, and such as the court would have authorized. In the case which decided this point the payment allowed was for a valuation of the debtor's property.

In a case in which a solicitor induced a receiver not to interfere with the business of the debtor, but allowed him to continue to carry it on, it was held that such interference with its officer was a contempt of court, whether by a solicitor or any other persons. The solicitor was held liable for the loss through carrying on the business, and an account was directed to be taken against the receiver jointly with the solicitor.

A receiver should not suffer any interference with his duties, and if appointed manager he ought to give proper supervision over the business. A party appointed receiver and manager employed the debtor to carry on the business and from time to time authorized him to collect moneys for payment of wages. Out of moneys so collected the debtor applied several sums, amounting to £53 8s. 10d., to his own use and then absconded. The receiver was held to be liable and ordered to pay the amount.

In *re Bushell* the receiver and manager carried on the business of the debtor, who was a tea and coffee merchant in London. For this purpose he contracted debts to the amount of £558. He applied for, and obtained, an order on the trustee, to pay these debts, but, on appeal, the decision was reversed. In his judgment, Jessel, M.R., said, "As to the sum claimed for the price of goods ordered, no doubt the receiver was entitled to be indemnified out of the debtor's estate, but that was no reason for making a personal order on the trustee to pay the amount. If a receiver and manager, either in chancery or in bankruptcy, chose to advance money on behalf of the estate without previous authority, he could only look to the estate for an indemnity. In the chancery division the practice was for the receiver and manager, before he advanced any money, to apply to the court for authority to do so, and he usually obtained an order giving him five per cent. interest on what he advanced, and a charge upon the assets. If he made the advance without authority, he would still be entitled to an indemnity out of the estate, but it was impossible to make a personal order for payment by the trustee. The only order which could be made against the trustee would be that he should pay out of the assets, if he had available assets in his hands." In this case the court gave no costs against the receiver, because, as the Master of the Rolls stated, "There

seemed to have been great laxity in the bankruptcy practice, by which the receiver might have been misled."

Where proceedings have been instituted under secs. 125 and 126 for liquidation by arrangement or composition with creditors, rule 262 of the bankruptcy rules, 1870, provides for the appointment of a receiver and manager, upon the nomination of a majority in value of the creditors, and "where any such receiver and manager has been so appointed, he shall investigate the state of the debtor's affairs, and report thereon to the general meeting of creditors." Although there is no similar direction with respect to receivers appointed by the court, and the form of order is silent on the point, I believe it is the common practice for all receivers, under proceedings for liquidation by arrangement or composition, to investigate and report to the creditors.

In most cases I think the receiver prepares or assists the debtor in the preparation of his statement of affairs, but in a case which came before Mr. Daniels, the learned judge for the Leeds County Court, in 1877, he said, "It is no part of the receiver's duty to make out the debtor's statement." "The receiver is the last person to help the debtor—he is the officer of the Court to take possession of the things of the debtor until his affairs come before his creditors."

If a petition for liquidation is presented when bankruptcy proceedings under which a receiver has been appointed are pending, the court will not appoint another receiver.

Under the act of 1883, the receiver and manager, or as he is called in the act the "special manager," will not be left to act entirely on his own judgment and responsibility, or on that of his solicitor; for he will be appointed with "such powers (including any of the powers of a receiver) as may be entrusted to him by his official receiver."

The sole power of appointing a special manager rests with the official receiver, "on the application of any creditor or creditors, if he is satisfied that the nature of the debtor's estate or business, or the interest of the creditors generally, require such an appointment." It appears to me that where such an appointment is made the special manager will be the delegate of the official receiver, to the extent of the powers entrusted to him by the order of his appointment. If this view is correct, any proceedings for putting the court in motion, either for the protection and preservation of the bankrupt's property, or to prevent or restrain interference with the receiver or manager, will be taken by the official receiver; the special manager referring to him in case of necessity.

It is provided that "the special manager should give security and account in such manner as the Board of Trade may direct."

A receiver once appointed remains receiver until he is released by the court, or in pursuance of a statutory enactment.

If the suit or matter in which he was appointed has been decided and come to an end, an application should be made to the court to discharge the receiver, or he will continue in office. Until the matter is ended he cannot get rid of his office or obtain his release except upon reasonable grounds, or upon the terms of his paying the costs of, and consequent upon the appointment of another receiver.

A receiver will not be discharged until he shall have received from the parties interested in the estate the balance that shall be found due to him on passing his accounts. In bankruptcy the court may cancel the appointment of a receiver or manager at any time, upon the application of the debtor, and of the creditors upon whose application the appointment was made, and of any creditor whose proceedings may have been restrained, or if the court shall see fit.

A receiver is liable to be removed by the court for any misconduct or irregularity in his accounts, or in passing them, and in such cases he may be deprived of all remuneration and made to pay costs.

A receiver appointed under the Bankruptcy Act remains in office until one of the following events has happened. (1), The appointment of a trustee; (2), the registration of an extraordinary resolution for composition; or (3), thet court has ordered his release. If the proceedings fall through or are discontinued, the receiver remains in office until released by an order of the court, and he must not hand over any property or part with any funds in his hands (except by order of the court), until he has been released. The debtor will not be allowed to sue the receiver in respect of any claim by him.

A receiver who has been discharged and does not pay over the balance in his hands as directed, is liable to be ordered to pay in the balance, and his salary and interest at 5 per cent. on both sums, as well as the costs of the motion.

When the duties of a receiver or manager are concluded by reason of the appointment of a trustee in bankruptcy or liquidation, he must render his accounts, and pay or deliver over any money or property in his hands to the trustee, and the receiver must attend upon the trustee at such reasonable times as the trustee may require, for the examination of the accounts.

In cases of composition the receiver must account to the debtor.

The receiver and manager being an officer of the court, his bills and charges are subject to taxation, including out of pocket disbursements. In a case before the Court of Appeal the receiver had charged in his cash account the travelling and hotel expenses of himself and two persons whom he had employed to inspect the management of the business at the various shops of the debtor. The trustee contended that these payments, which amounted to £178, were subject to taxation. Jessel, M.R., said that he could not imagine any better description of the items included in the £178 than "charges" of the receiver. "The rule was plain, and yet it had been boldly argued that as regarded a receiver, rule 5 was to be limited to his remuneration. But in the rule the charges of a receiver were lumped together with those of solicitors and others, and it was well known that the bills of solicitors were liable to taxation as to the *disbursements out of pocket* charged by them."

Where a receiver or manager has been appointed under a bankruptcy petition which is afterwards dismissed, the petitioning creditor "shall pay such costs of the receiver or manager as the court may direct."

In bankruptcy or liquidation, if the receiver is continued as trustee, his remuneration as trustee, at the rate determined on, shall commence as from the date of his appointment as receiver.

Where the receiver or manager is not continued as trustee, or is continued but without remuneration, he shall be allowed out of the estate such sums for his services as the taxing officer of the court shall, having regard to the views of the trustee and committee of inspection (if any) thereon think fit.

In composition cases the debtor will be liable to the receiver for his charges subject to taxation. But if the debtor gives to the receiver security for an amount agreed between them without taxation, the court has no jurisdiction afterwards to direct the taxation of such charges or to set aside the security.

A receiver or manager will not have any lien for his remuneration on any money or property which may come into his hands, but he will be entitled to have what is found due to him paid next after the costs of realizing the estate.

A receiver may be allowed a reasonable remuneration for services rendered by him prior to the filing of the petition. If the assets are insufficient to pay his charges he cannot complain, or impugn the conduct of the trustee for having wasted them.

He cannot interfere in the winding up but must wait for his charges until there are funds in hand to pay them.

A special manager appointed under the act of 1883 is to receive such remuneration as the creditors may, by resolution, at an ordinary meeting determine, or in default of such resolution as may be prescribed. What will be prescribed will be known when the rules and orders under the Act are published.

A receiver of an insolvent estate holding proxies of a statutory majority of creditors, refused on the last of three days

after the general meeting to sign the composition resolutions which had been duly confirmed unless the costs which he had incurred in the management of the estate were paid or secured. He had not had his costs taxed.

An agreement was thereupon entered into, between the receiver and the solicitor to the debtor guaranteeing the payment of the costs. In an action upon this agreement a verdict was found for the amount claimed by the receiver. In a rule for a new trial, or to enter judgment for the defendant, on the ground that the agreement was illegal, Justices Grove and Smith, in the Q.B. Division, held that as this was no fraudulent bargain by which a creditor obtained an advantage over other creditors in a composition, the plaintiff was entitled to recover. The work had been done by the plaintiff for the benefit of the debtor and creditors, and there was no duress in obtaining the agreement protecting his rights.

A trustee in bankruptcy has in conjunction with his other powers those of a receiver. The latter part of section 20 of the Act of 1869, provides: "The trustee shall in relation to and for the purpose of acquiring or retaining possession of the property of the bankrupt, be in the same position in all respects as if he were a receiver of such property appointed by the Court of Chancery, and the court may, on his application, enforce such acquisition or retention of property accordingly." This clause is with slight verbal alteration, and the substitution of the High Court for the Court of Chancery, re-enacted in Section 50 of the Act of 1883. The official receiver created by that act will be an officer of the court having the powers and duties of a receiver, with other powers and duties imposed by the act, of a varied and extensive character. Section 68, (1) says: "The duties of the official receiver shall have relation both to the conduct of the debtor, and to the administration of the estate." It is not within the scope of my paper to enter into a consideration of the special duties of official receivers as defined by the Bankruptcy Act, 1883, but I may say that they stand out prominently in the act as the agents and officers of the Board of Trade, in the several districts assigned to them. The extensive duties and powers with which they are invested, and the oversight of persons and proceedings, will give them power to control and regulate to a great extent, the working of the act.

To sum up shortly:

The receiver is an officer of the court by which he is appointed, and must act strictly in accordance with the terms of the order appointing him, and—if appointed under any particular act—with the provisions of the act under which the appointment is made, he must use due diligence to perform the duties of his office, and to protect and preserve the property over which he is appointed. He must act with perfect impartiality, and suffer no interference in the discharge of his duties. He should render his accounts duly, and the final account, when the object for which he was appointed is at an end, and he should see that he is then properly discharged and released from his office.

I am conscious of many defects in my paper; but I trust that it will provoke discussion, and that you will not fail to call in question any statement which you think is incorrect, or opinion with which you do not agree I hope also that any points which I have omitted or not made clear, will be brought out in discussion.

Mr. Best said that Mr. Shuttleworth in his paper stated that a receiver had no lien for remuneration on any money or property in his hands. He asked whether a receiver would not have a lien for his remuneration where, under a liquidation petition, no resolutions were passed, and the proceedings fell through.

Mr. Shuttleworth in reply said, that in such a case the receiver would remain receiver until discharged by the court, and could only be required to deliver up possession as the court directed. The court would not order the receiver to give up to the debtor property in his hands until his proper charges and the balance of his account (if any) due to him had been paid or provided for.

In reply to remarks made by Mr. Gill on the subject of "Receivers in Chancery," Mr. Shuttleworth said that he had endeavoured in his paper to state the general principles which should govern the action of receivers, and to illustrate those principles by reference to decisions bearing upon them. He said it was not possible in any paper to define the duties to be performed in particular cases.

A vote of thanks to Mr. Shuttleworth for his able paper, proposed by Mr. Harry Short, A.C.A., seconded by Mr. A. J. Booth, and supported by Mr. W. G. Hawson, F.C.A., and the President, was carried with acclamation.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

Answers to Questions.

FINAL EXAMINATION—JUNE, 1883.

BOOKKEEPING.

1. An Account is a statement of the transactions between two or more persons or things.

2. (*a*) Gross Profit is the result of transactions before the general expenses of the undertaking are deducted. (*b*) Net Profit is the net result of an undertaking after deducting all expenses, depreciation, and loss. The Gross Profit is shown in Account *a*. The Net Profit in Account *b*.

Dr. (*a*.) TRADING ACCOUNT. Cr.

1883.						1883.					
Jan. 1	To Stock	1000	0	0		June 30	By Sales	37500	0	0	
June 30	,, Purchases	10000	0	0		,, ,,	,, Carriage	500	0	0	
,, ,,	,, Wages	20000	0	0			,, Stock forward	2000	0	0	
,, ,,	,, Departmental Salaries	1000	0	0							
,, ,,	,, Proportion of Rent	200	0	0							
,, ,,	,, Maintenance of Machinery	400	0	0							
,, ,,	,, Carriage	1400	0	0							
,, ,,	,, Profit and Loss Gross	6000	0	0							
		40000	0	0				40000	0	0	

Dr. (*b*.) PROFIT AND LOSS ACCOUNT. Cr.

1883.						1883.					
June 30	To Management Expenses, including Stationery, &c., proportion of rent, &c.	2500	0	0		June	By Trading Account, Gross Profit	6000	0	0	
,, ,,	To Discount and Interest	250	0	0							
,, ,,	,, Depreciation of Lease	100	0	0							
,, ,,	,, Bad and Doubtful Debts	150	0	0							
,, ,,	,, Law Costs	115	0	0							
,, ,,	,, Balance net profit	2885	0	0							
		6000	0	0				6000	0	0	

3. Double Entry is a system of bookkeeping, the principle of which is that in some shape or another a counterbalance must be provided for the record of every transaction. For instance, if 10 persons are charged with goods amounting in the aggregate to £1,000, the counter-weight is provided in "Goods Account" by a credit of like amount; if such 10 persons give their acceptances for the goods so supplied, they are credited therewith, and the counter-weight is found in "Bills Receivable Account," which is debited with the total of the acceptances so received. The object of this system is to obtain a perfect control over the undertaking and of every section thereof, to ensure proof of every transaction, and to be able to ascertain clearly and distinctly every source of profit and loss.

4. Bills of Exchange are (as their name implies) instruments of a negotiable character transferable from hand to hand by special or blank endorsement. They are covenants by the acceptor (if drafts), by the creator (if promissory notes), to pay at a given time a specified sum of money to a particular person or "his order." If the words "or order" are omitted they are not "negotiable instruments," and must be claimed by the person designated therein as the payee.

EXAMPLE OF A BILL:—

No. 152. £500 0 0 due 4th Sept./83. London, 1st June, 1883.

Three months after date pay to Messrs. Sansson & Co. or their order the sum of Five Hundred Pounds for value in account.

(Signed) J. TRUSTWORTHY & Co.

To Messrs. Vielgeld & Son,
Frankfort o/M.
In case of need with
Messrs. Ehrenvoll & Recht,
Halle a/S.

The acceptance (written across the Bill) is in the following form:—

"Accepted payable at the Comptoir d'Escompte, Paris.
"VIELGELD & SOHN."

Such Bill would probably bear on the back some such endorsement as follows:—

An die Order der Herren Gierig & Sohn.
(Signed) Sansson & Cie.

A l'ordre de M. M. Grandsac et fils.
(Signed) Gierig & Sohn.

EXAMPLE OF A PROMISSORY NOTE.

No. 153.

£200 0 0 due 4th Sept., 1883. Liverpool, 1st June, 1883.

Three months after date I promise to pay to Mr. Thomas Easy or order the sum of Two Hundred Pounds for value received.

Payable at the National
Provincial Bank of England,
Liverpool Branch.

HUGH I. OWE.

which at the back would bear the endorsement "Thos. Easy."

DR. BILLS RECEIVABLE ACCOUNT. CR.

1883.						1883.					
Jan. 1	To Balance down, 7 to 8 and 9 to 11..	930	0	0	Jan. 12	By Cash 7	120	0	0
,, 15	,, Arton 12 to 13..	110	0	0	Feb. 5	,, ,, 8	100	0	0
,, 30	,, Brown 14..	50	0	0	,, 16	,, ,, 10 and 11	400	0	0
Feb. 10	,, Cade 15 to 17 .	300	0	0	,, 27	,, ,, 9	310	0	0
,, 25	,, Dane 18..	100	0	0	March 18	,, ,, 12 and 13	110	0	0
March 1	,, Earne 19..	200	0	0	April 2	,, ,, 14	50	0	0
,, 18	,, Feind 20..	150	0	0	May 13	,, ,, 15 and 16	200	0	0
April 6	,, Gall 21..	300	0	0	,, 28	,, ,, 18	100	0	0
May 12	,, Hayes 22 to 23..	200	0	0	June 4	,, ,, 19	200	0	0
June 9	,, Jones 24 to 25..	300	0	0	,, 13	,, ,, 17	100	0	0
					,, 21	,, ,, 20	150	0	0
					,, 30	,, Balance forward 21 to 25	800	0	0
		2640	0	0			2640	0	0
July 1	To Balance down, 21 to 25	800	0	0					

DR. BILLS PAYABLE ACCOUNT. CR.

1883.						1883.					
Jan. 4	To Cash 18 and 19	300	0	0	a	Jan. 1	By Balance down, 17 to 21..	750	0	0	a
,, 15	,, ,, 20	150	0	0	a	,, 31	,, Sundries 22 to 28	700	0	0	b
,, 28	,, ,, 21	100	0	0	a	Feb. 28	,, ,, 29 to 32	450	0	0	c
Feb. 4	,, ,, 17	200	0	0	a	March 31	,, ,, 33 to 37	600	0	0	d
March 28	,, ,, 25 and 26	200	0	0	b	April 30	,, ,, 38 to 40	150	0	0	
April 4	,, ,, 22 and 24	300	0	0	b	May 31	,, ,, 41 to 43	200	0	0	
,, 19	,, ,, 27	100	0	0	b	June 30	,, ,, 44 to 47	500	0	0	
May 4	,, ,, 30	100	0	0	c						
,, 15	,, ,, 28 b and 31, 32	350	0	0	c						
,, 24	,, ,, 34	100	0	0	d						
June 4	,, ,, 29	100	0	0	c						
,, 11	,, ,, 33, 35 and 36	400	0	0	d						
,, 30	,, Balance forward 37 d, and 47 ..	950	0	0							
		3350	0	0				3350	0	0	
						July 1	By Balance down, 37 to 47	950	0	0	

51 (ANSWER 5.) 51

Dr. CASH ACCOUNT FOR MONTH OF JANUARY, 1883. Cr.

	Receipts.	Fo.	Discount	House Cash.	Bank.		Payments.	Fo.	Discount	House Cash.	Bank.
1st	To Balance from 31 December, 1882..	50		25 0 0	500 0 0	2nd	By Allott, T.	1	1 0 0	20 0 0	
2nd	,, Adlms & Co. ..	2	2 10 0	17 10 0	100 0 0	,,	,, Brown, H. ..	7	11 0 0		220 0 0
3rd	,, Browne & Co. ..	8	0 5 0	10 0 0		3rd	,, Charles, J. ..	16	2 10 0		100 0 0
5th	,, Bank Contra ..	A		20 0 0		5th	,, Davis, E.	22	0 15 0	30 0 0	
,,	,, Caney, W. ..	15	0 2 6	10 0 0		,,	,, House Contra ..	A			20 0 0
6th	,, Darnell, F. ..	23	0 15 0	15 0 0		8th	,, Ernest, W. ..	29			320 0 0
8th	,, Easy, A.	28	4 1 0	12 0 0	150 0 0	,,	,, Bank Contra ..	B		40 0 0	
,,	,, House Contra ..	B			40 0 0	,,	,, Salaries & Wages	130			15 0 0
10th	,, Bills Receivable No. 12	131			200 0 0	,,	,, J. Lawes, Rent less I. Tax ..	54			17 1 3
11th	Do. No. 143	131		37 0 0		12th	,, Salaries & Wages	130			14 8 9
12th	,, Fielding, C. ..	33	3 15 6		205 0 0	15th	,, Bills payable 33/5	132		35 0 0	300 0 0
21st	,, Cash Sales ..	134		51 10 0		17th	,, Salaries & Wages	130			15 2 9
28th	,, Gale, A.	41	2 2 6	65 2 6		22d	,, Fate, B.	32	0 5 3	15 0 0	
29th	,, Bills Receivable No. 16	131			250 0 0	23rd	,, Garner, D. ..	34	0 10 6	28 0 0	
30th	,, House Contra ..	C			70 0 0	29th	,, Salaries & Wages	130		14 16 3	
31st	,, Discount a/c Balance transferred	135	2 9 3			30th	,, Bills payable 37	132			360 0 0
						,,	,, Bank Contra ..	C		70 0 3	
						31st	,, Balances to 1st February ..	52		10 6 3	83 7 3
			16 0 9	263 2 6	1465 0 0				16 0 9	263 2 6	1465 0 0

Capital is the amount of money value invested in an undertaking plus accumulations, minus withdrawals or losses. If a man invests £5,000 in a business, the *net* profits of which are £500, and he spends £300 thereof, his capital is increased to £5,200. If making £500, he spends £700, his capital is reduced to £4,800.

In a joint stock undertaking the capital is represented by the number of shares subscribed for.

For examples see Answers 8 and 10.

Dr. (ANSWER 7.) CASH ACCOUNT. Cr.

1883.							1883.				
Jan. 1	To Balance..		5050	0	0	Jan. 15	By X., Y. and Co. remitted on account Wool		10000	0	0
,, 13	,, B. contribution to Joint Adventure, Wool		5000	0	0	April 25	,, Wool Joint Adventure Account Charges		750	0	0
May 15	,, Wool Joint Adventure Account proceeds		15750	0	0	,, 25	,, Wool Joint Adventure Account Insurance		300	0	0
						,, 28	,, B/P No. 17		3500	0	0
						May 17	,, B. ½ profit on Wool Joint Adventure and Principal ..		5600	0	0
						,, 17	,, Balance forward	2	5650	0	0
			25800	0	0				25800	0	0
May 17	To Balance down	1	5650	0	0						

15 (Journal.) London, 25th April, 1883.

4	Wool Joint Adventure (with B.) Account .. .. Dr.		13500	0	0
	To X., Y. & Co.	1			13500	0	0
	Purchase of Wools as per accounts dated 7th March, 1883..				
	Do.				
1	X., Y. & Co. .. .. Dr.		3500	0	0
	To Bills Payable	3			3500	0	0
	No. 17, 3 days' sight, without grace, accepted this day				
	17th May				
4	Wool Joint Adventure (with B.) Account .. .. Dr.		1200	0	0
	To Sundries				
	B. half-share profits	2			600	0	0
	Profit and Loss	5			600	0	0
	Do.				
5	Profit and Loss .. .. Dr.		600	0	0
	To Capital Account	6			600	0	0
	Balance transferred				

1 Dr. X. Y. & Co., Adelaide. Cr.

1883.							1883.				
Jan. 15	To Cash on Account.. ..	1	10000	0	0	April 25	By Wool	15	13500	0	0
April 25	To B/P. No. 17	15	3500	0	0						
			13500	0	0				13500	0	0

2 DR. B. CR. 2

1883.						1883.					
May 17	To Cash	1	5600	0	0	Jan. 13	By Cash contribution to Joint Adventure	1	5000	0	0
						May 15	By ½ profit on Wool		600	0	0
			5600	0	0				5600	0	0

3 DR. BILLS PAYABLE ACCOUNT. CR. 3

1883.						1883.					
April 21	To Cash, No. 17	1	3500	0	0	April 25	By X. Y. & Co., No. 17 ..	15	3500	0	0

4 DR. WOOL JOINT ADVENTURE (with B.) ACCOUNT. CR. 4

1883.						1883.					
April 25	To X. Y. & Co. Costs	15	13500	0	0	May 15	By Cash proceeds..	1	15750	0	0
,,	,, Cash charges	1	750	0	0						
,,	,, Cash Insurance..	1	300	0	0						
May 17	,, B. ½ profit		600	0	0						
,,	,, Profit and Loss ½ do. ..		600	0	0						
			15750	0	0				1570	0	0

5 DR. PROFIT AND LOSS ACCOUNT. CR. 56

1883.						1883.					
May 17	To Capital Account	15	600	0	0	May 17	By Wool Joint Adventure Account		600	0	0

6 DR. CAPITAL ACCOUNT. CR.

1883.						1883.					
May 17	To Balance forward		5650	0	0	Jan. 1	By Balance	3251	5050	0	0
						May 17	,, Profit and Loss		600	0	0
			5650	0	0				5650	0	0

THE JOINT STOCK SHIPPING COMPANY, LIMITED.

BALANCE SHEET AT 30TH JUNE, 1883.

LIABILITIES.				ASSETS.				
To Creditors on Mortgage at 7 per cent. ..	10000	0	0	By Property in Ships—				
,, 5 per cent. Debenture Holders	10000	0	0	At Cost..	£42000	0	0	
,, Creditors—				Less 15 per cent. depreciation	6300	0	0	
On Acceptances	£15000	0	0					35700 0 0
On Open Account ..	3000	0	0	,, Shares in Ships, viz.—				
	18000	0	0	ss. "Anna," 13/64th ..	£9000	0	0	
,, Creditors on Loans	20000	0	0	ss. "Lady Jane," 29/64th	15000	0	0	
,, Insurance Fund	10000	0	0					24000 0 0
,, Shareholders—				,, Freehold Premises—				
10 per cent. Dividend on Capital ..	5000	0	0	At Cost—full value				3000 0 0
,, Paid-up Capital as per Capital Account..	23500	0	0	,, Leasehold Premises—				
,, Profit and Loss—				At Cost	£2500	0	0	
New Account, undivided profits.. ..	15000	0	0	Less 10 per cent. depreciation	250	0	0	
								2250 0 0
				,, Machinery, Plant and Utensils—				
				At Cost	£10000	0	0	
				Less 15 per cent. depreciation	1500	0	0	
								8500 0 0
				,, Stores and Provisions—				
				At Cost				6000 0 0
				,, Cash at Bankers	£4500	0	0	
				In hand	450	0	0	
								4950 0 0
				,, Preliminary Expenses ..	£2000	0	0	
				Less written off, 20 per cent.	400	0	0	
								1600 0 0
				,, Debtors—				
				On Freights	£8000	0	0	
				On Charters	4000	0	0	
								12000 0 0
	98000	0	0					98000 0 0

CAPITAL ACCOUNT.

To Nominal Capital—				By Amount uncalled, £2 10s. per Share				
10000 Shares of £5 each	50000	0	0	By Calls in Arrears, viz.:—			25000	0	0
				On 1st Call	£500	0 0			
				On 2nd Call	1000	0 0			
							1500	0	0
				By Paid up Capital to Balance Sheet			23500	0	0
	50000	0	0				50000	0	0

PROFIT AND LOSS ACCOUNT.

To Balance brought down	500	0	0	By Freight Account	16510	0	0
,, Rent of Leasehold Premises, less Income Tax	243	15	0	,, Charter Account	6000	0	0
,, Salaries, Managerial and other Expenses, Head Office	1205	5	0	,, Insurance Premiums	27	10	0
,, Management and other Expenses at Wharf and Warehouses	1800	0	0	,, Return Brokerages	136	10	0
,, Brokerages	650	0	0				
,, Insurance on Shares in Ships	550	0	0				
,, Interest on Mortgages	700	0	0				
,, ,, Debentures	500	0	0				
,, ,, Loans	800	0	0				
,, *Depreciation*, viz.:							
7½ per cent. on Ships	3150	0	0				
5 per cent. on Leaseholds	125	0	0				
7½ per cent. on Machinery, &c. ..	750	0	0				
10 per cent. Petty Expenses	200	0	0				
,, Insurance Fund	5000	0	0				
,, 10 per cent. Dividend on Capital	5000	0	0				
,, Profit and Loss New Account, forward ..	1500	0	0				
	22674	0	0		22674	0	0

A "trial balance" is obtained by taking out all the debit and credit balances contained in the ledger and adding thereto the balances in the cash-book (that is, when cash and bank accounts are not kept in the ledger).

It differs from a balance-sheet in various ways. It is made out to prove the correctdess of the postings, and the balances are placod on the same sides as they appear in the ledger.

It is taken out prior to making the transfers nccessary to ascertain the profit or loss.

In Answer 10 specimens are given of "trial balances" prior to adjustment and after adjustment of accounts.

A balance-sheet shows the results of the undertaking in condensed form. In a balance-sheet the figures stand on the opposite side to that on which they appear in the ledger, because they are the result of the balancing or *closing* entries, and not of the *reopening* entries.

Dr. (Answer 10.) CASH ACCOUNT. Cr.

1

1883.						1883.					
Jan. 1	To Sundries	J. I.	2500	0	0	Jan. 6	By H. Boyd	2	500	0	0
,, 15	,, Hall & Co.	6	1700	0	0	,, ,,	,, Williamson	4	750	0	0
,, 18	,, Brown	7	750	0	0	,, 10	,, Goods Account	3	1018	6	0
,, 30	,, G. N. R. Stock, £1000 @ 118 per cent, ...	13	1180	0	0	,, 20	,, Drawing Account	8	550	0	0
						,, 23	,, Charges Account	9	300	0	0
						,, ,,	,, Rent Account	10	125	0	0
						,, ,,	,, Salaries Account	11	50	0	0
						,, ,,	,, Trade Fxpenses	12	158	16	4
						,, 24	,, G. N. R. Stock, £1000 @ 122 per cent.	13	1220	0	0
						,, 31	By Balance to 1st Feb.	2	1457	17	8
			6130	0	0				6130	0	0
1883.											
Feb. 1	To Balance down	1	1457	17	8						

LONDON, 1st JANUARY 1883.

	Sundries	DR.						
	To Sundries							
	Being position at this date							
C.B. 1	Cash as per Cash Book			2500	0	0		
3	Goods Account as per Inventory			3000	0	0		
	Boyd H.		2				1000	0 0
	Capital Account		1				4500	0 0
	5th							
3	Goods Account	DR.		2000	0	0		
	To Wilkinson & Co.		4				2000	0 0
	Bought Book Inventory No. 1							
	8th							
4	Wilkinson & Co.	DR.		600	0	0		
	To Bills Payable		5				600	0 0
	No. 1 due 11th April							
	12th							
6	Hall & Co.	DR.		2500	0	0		
	To Goods Account		3				2500	0 0
	Sold Book Inventory, No. 1							
	16th							
7	Brown	DR.		3036	14	6		
	To Goods Account		3				3036	14 6
	Sold Book Inventory, No. 2							
	18th							
5	Bills Receivable	DR.		1500	0	0		
	To Brown		7				1500	0 0
	No. 1 due 21st April							
	31st							
3	Goods Account	DR.		1411	8	6		
	To Profit and Loss Account		14				1411	8 6
	Gross Profit transferred							

LONDON, 31st JANUARY 1883.

14	Profit and Loss	DR.		673	16	4		
	To Sundries							
	Charges Account		9				300	0 0
	Rent Account		10				125	0 0
	Salaries Account		11				50	0 0
	Trade Expenses Account		12				158	16 4
	Great Northern Railway Stock Account		13				40	0 0
	Do.							
14	Profit and Loss	DR.		737	12	2		
	To Drawing Account		8				737	12 2
	Net Profit transferred							
	Do.							
8	Drawing Account	DR.		187	12	2		
	To Capital Account		1				187	12 2
	Balance transferred being Unexpended Revenue							

DR. CAPITAL ACCOUNT. CR. 1

1883.						1883.					
Jan. 31	To Balance forward		4687	12	2	Jan. 1	By Sundries	J. 1	4500	0	0
						,, 31	,, Drawing Account	J. 2	187	12	2
		4687	12	2				4867	12	2	
						1883.					
						Feb. 1	By Balance down		4687	12	2

2 DR. H. BOYD, 1 High Street, Dolgelly, North Wales. CR. 2

1883.						1883.					
Jan. 6	To Cash	1	500	0	0	Jan. 1	By Sundries	J. 1	1000	0	0
,, 31	,, Balance forward		500	0	0						
		1000	0	0				1000	0	0	
						1883.					
						Feb. 1	By Balance down		500	0	0

3 DR. GOODS ACCOUNT. CR. 3

1883.						1883.					
Jan. 1	To Sundries	J. 1	3000	0	0	Jan. 12	By Hall	J. 1	2500	0	0
,, 5	,, Wilkinson & Co.	,,	2000	0	0	,, 16	,, Brown	J. 1	3036	14	6
,, 10	,, Cash	1	1018	6	0	,, 31	,, Balance Stock forward ..		1893	0	0
,, 31	,, P. & Sons	1	1411	8	6						
		7429	14	6				7429	14	6	
1883.	To Balance down										
Feb. 1			1893	0	0						

4 Dr. WILKINSON & CO. Cr. 4

1883.								1883.							
Jan. 6	To Cash		1	750	0	0		Jan. 5	By Goods		J. 1	2000	0	0	
,, 8	,, B./P. No. 1	J. 1		600	0	0									
,, 31	,, Balance forward			650	0	0									
		2000	0	0						2000	0	0			
								1883.							
								Feb. 1	By Balance down			650	0	0	

5 Dr. BILLS PAYABLE ACCOUNT. Cr. 5

								1883.							
								Jan. 8	By Wilkinson, No. 1			600	0	0	

5A Dr. BILLS RECEIVABLE ACCOUNT. Cr. 5A

1883.															
Jan. 18	To Brown, No. 1		J. 1	1500	0	0									

6 Dr. HALL & Co. Cr. 6

1883.								1883.							
Jan. 12	To Goods		J. 1	2500	0	0		Jan. 15	By Cash		1	1700	0	0	
								,, 31	,, Balance forward			800	0	0	
		2500	0	0						2500	0	0			
1883.															
Feb. 1	To Balance down			800	0	0									

7 Dr. BROWN. Cr. 7

1883.								1883.							
Jan. 16	To Goods		J. 1	3036	14	6		Jan. 18	By Cash		1	750	0	0	
								,, 18	,, B/R No. 1		J. 1	1500	0	0	
								,, 31	,, Balance forward			786	14	6	
		3036	14	6						3036	14	6			
1883.															
Feb. 1	To Balance down			786	14	6									

8 Dr. DRAWING ACCOUNT. Cr. 8

1883.								1883.							
Jan. 20	To Cash		1	550	0	0		Jan. 31	By P. & L.			737	12	2	
,, 31	,, Capital Account		J. 2	187	12	2									
		737	12	2						737	12	2			

9 Dr. CHARGES ACCOUNT. Cr. 9

1883.								1883.							
Jan. 23	To Cash		1	300	0	0		Jan. 31	By P. & L.		J. 2	300	0	0	

10 Dr. RENT ACCOUNT. Cr. 10

1883.								1883.							
Jan. 23	To Cash		1	125	0	0		Jan. 31	By P. & L.		J. 2	125	0	0	

11 Dr. SALARIES ACCOUNT. Cr. 11

1883.								1883.							
Jan. 23	To Cash			50	0	0		Jan. 31	By P. & L.		J. 2	50	0	0	

12 Dr. TRADE EXPENSES ACCOUNT. Cr. 12

1883.								1883.							
Jan. 23	To Cash		1	158	16	4		Jan. 31	By P. & L.		J. 2	158	16	4	

13 Dr. GREAT NORTHERN RAILWAY STOCK ACCOUNT. Cr. 13

1883.								1883.							
Jan. 24	To Cash £1000 at par		1	1220	0	0		Jan. 30	By Cash £1000 at par		1	1180	0	0	
								,, 31	,, P. & L.		J. 2	40	0	0	
		1220	0	0						1220	0	0			

14 Dr. PROFIT AND LOSS ACCOUNT. Cr. 14

1883.								1883.							
Jan. 31	To Sundries		J. 2	673	16	4		Jan. 31	By Goods Account		J. 1	1411	8	6	
,, 31	,, Drawing Account		2	737	12	2									
		1411	8	6						1411	8	6			

TRIAL BALANCE PRIOR TO ADJUSTMENT, 31st JANUARY 1883.

	Capital Account					1			4500 0 0
	Boyd, H.					2			500 0 0
3	Goods Account	1893	0	0					
	Wilkinson & Co.					4			650 0 0
	Bills Payable					5			600 0 0
5a	Bills Receivable	1500	0	0					
6	Hall & Co.	800	0	0					
7	Brown	786	14	6					
8	Drawing Account	550	0	0					
9	Charges Account	300	0	0					
10	Rent Account	125	0	0					
11	Salaries Account	50	0	0					
12	Trade Expenses Account	158	16	4					
13	Great Northern Railway Stock Account	40	0	0					
14	Profit and Loss Account								1411 8 6
1	Cash Book Balance	1457	17	8					
		7661	8	6	7661	8	6		

TRIAL BALANCE AFTER ADJUSTMENT.

	Capital Account					1			4687 12 2
	Boyd, H.					2			500 0 0
3	Goods Account	1893	0	0					
	Wilkinson & Co.					4			650 0 0
	Bills Payable					5			600 0 0
5a	Bills Receivable	1500	0	0					
6	Hall & Co.	800	0	0					
7	Brown	786	14	6					
1	Cash Book Balance	1457	17	8					
		6437	12	2	6437	12	2		

BALANCE SHEET AT 1st JANUARY, 1883.

To Creditors—				By Debtors		1586	14 6
On Acceptances	£600 0 0			„ Bills Receivable		1500	0 0
On Open Account	1150 0 0			„ Goods—Stock		1893	0 0
	1750	0	0	„ Cash in hand		1457	17 8
„ Capital Account	4687	12	2				
	6437	12	2			6437	12 2

Dr. PROFIT AND LOSS ACCOUNT. Cr.

1883.						1883.			
Jan. 31	To Charges Account	300	0	0		Jan. 31	By Goods Account—Gross Profit	1411	8 6
„ „	„ Rent Account	125	0	0					
„ „	„ Salaries Account	50	0	0					
„ „	„ Trade Expenses Account	158	16	4					
„ „	„ Great Northern Railway Stock Account	40	0	0					
„ „	„ Drawing Account—Net Profit	737	12	2					
		1411	8	6				1411	8 6

Dr. DRAWING ACCOUNT. Cr.

1883.						1883.			
Jan. 20	To Cash Drawings	550	0	0		Jan. 31	By Profit and Loss—Net Profit	737	12 2
„ 31	„ Capital Account	187	12	2					
		737	12	2				737	12 2

Dr. CAPITAL ACCOUNT. Cr.

1883.						1883.			
Jan. 31	To Balance forward	4687	12	2		Jan. 1	By Sundries	4500	0 0
						„ 31	„ Drawing Account	187	12 2
		4687	12	2				4687	12 2

AUDITING.

1. An auditor is one who has to hear (*audire*), examine, and decide upon the facts or figures submitted to him for examination. His duties are to test the figures and facts shown in the balance-sheet, and to approve or disapprove thereof. His responsibilities are moral rather than legal—that is to say, he risks the loss of reputation in the event of his certifying to what eventually proves to be false; but unless it is proved that he has done so with a guilty knowledge, he is not legally responsible for any misstatements which he has endorsed. By incomplete or unfaithful work he renders himself liable to loss of reputation, but does not render himself pecuniarily liable unless a conspiracy is proved, out of which conspiracy he has derived a benefit.

2. An audit may be complete without checking all the postings. For instance, if the totals of the cash receipts and of the journal credits accord with the total credits of the ledgers it must be evident that the clerical work is correct, but it does

not follow that the correctness of posting is a guarantee of real correctness. It is essential that the auditor should examine and criticise the entries themselves. The checking may be dispensed with when a crucial examination has been made of the entries, and when a proof casting accords with the trial casting.

3. I should, after examination, pass wages either through trading or profit and loss account. I should pass Jones's withdrawals if in excess of his interest on his capital, and share of profits to the debit of his capital account.

I should pass the balance of interest and discount to the debit of profit and loss.

I should show the debit of cash on the balance-sheet as an asset.

I should pass sales either to the credit of trading account or profit and loss account, according to the books and accounts used. If I found a credit on depreciation account I should treat it as a reserve for depreciation, if justified; otherwise I should pass it through profit and loss account.

Partner Smith's capital I should treat as a liability owing by the business to partner Smith; and the bankers I should treat as creditors for an overdraft.

The items which affect profit and loss I should, of course, pass through that account. The other items I should pass through capital account, or show on the balance-sheet itself.

4. (ii.) I should verify the withdrawals.
   (vi.) I inquire into the alleged provision for depreciation, which is in fact a reserve.
   (vii.) Verify the capital purporting to stand to the credit of Smith.
   (viii.) Ascertain the causes and conditions of the overdraft, and verify the same.

5. By carrying to capital items which should have been charged to revenue. The auditor's duty in such a case is to endeavour to bring the Board to endorse his views; and if they refuse, to make a special report thereon.

6. Capital which does not bear interest and so treated.

7. To ascertain whether they are treated at a fair valuation.

8. Ascertain whether they were taken at a fair cost, and not at a selling price.

9. This question is vaguely stated. Does it mean that the balance of the amount invested appears among sundry debtors, or that the balance of withdrawals is shown among sundry debtors? If the balance of investment is intended, and it belonged to the partnership, it should have been treated in the balance-sheet as an asset. If it means the balance of withdrawals by the partners it should be shown in the balance-sheet as an overdraft. Under no circumstances should a partner's withdrawals be treated as among sundry debtors.

If the auditor passed the item otherwise than in the balance-sheet he was unfit for his position, for he failed in his duty in neglecting to examine properly into the list of debtors, or to call the other partner's attention to the irregularities.

The fundamental principle is that partners must be just and faithful to each other, and render due and true accounts and full information on all matters relating to the partnership to any partner or his legal representative. But no partner is excused by reason of his own neglect to see that the bookkeeping is properly done.

Private gain must not be made at the partnership expense.

10. On the liability side particulars should be given showing how the capital was subscribed and paid up, for instance:—

Nominal Capital £200,000 in 10,000 shares of £20 each.

Subscribed Capital 10,000 shares, on which

£10 per share has been called up	£100,000	0	0
Less calls in arrears	2	10	0
Paid up capital	£99,997	10	0

The authority for the issue of vendor's and patentee shares should be stated such as "under agreement of 10th June 1881."

I do not understand why the sales of concessions and patents should appear as a liability, unless the same were paid for in cash (or shares) before such concessions or patents were made over in legal form.

On the asset side the following information ought to be forthcoming:—

Patents—how valued.

Parliamentary Expenses—how much per cent. written off.

Shares in other Companies—whether taken at par, at cost, or at market price.

Machinery—what depreciation allowed.

Stock—should be a distinct item, and it should be stated how the same was taken, whether at cost, market cost value, or selling market value.

Lease and furniture should be distinct and the depreciation on each shown.

Debtors—what provision was made for losses thereon.

Net Expenditure—A receipt and expenditure account should be annexed showing how the amount was arrived at.

BANKRUPTCY AND COMPANY LAW.

1. Foreigners domiciled or carrying on business in England are subject to the English Bankruptcy Law.

Infants being legally incapable of contract, cannot be made bankrupt.

Married women are not liable to become bankrupt, but a wife being a sole trader in London is so liable. (query: as to Married Women's Property Act).

Lunatics cannot commit acts of bankruptcy, and cannot therefore be made bankrupt, but a lunatic may be adjudged bankrupt upon a debt contracted, and an act of bankruptcy committed by him while sane or during a lucid interval.

Members of Parliament are liable to be made bankrupt as also are Peers.

Joint Stock Companies cannot be adjudged bankrupt.

2. It must be a debt due at law or in Equity; it must amount to at least £50, and must not be a secured debt unless the creditor is willing to give up his security or assess its value. In the latter case the unsecured balance must amount to £50.

3. He can disclaim onerous contracts, leases, shares, &c., and no person is entitled to withhold from him the bankrupt's books of account, or claim any lien on them.

Where the trustee's rights are opposed or disputed, he should enforce them by motion to the Court.

4. The disclaimed contract is deemed to be determined, the disclaimed lease is deemed to be surrendered, and the disclaimed shares are deemed to be forfeited, from the date of the adjudication in bankruptcy. A disclaimer acts as a surrender of all the trustee's rights and interest in, and as determining the liability of the trustee in respect of, the property disclaimed.

By providing that a trustee shall not disclaim certain property without leave of the Court and notice to persons interested therein; and that he shall not be at liberty to disclaim any property where he neglects to do so within a specified time after notice from any person interested therein.

5. Under sections 125 and 126 of the Act, the registrar before registering any resolutions must examine the same and satisfy himself they have been duly come to by the statutory majority of creditors at a duly convened meeting or meetings. He may refuse to register if the resolutions have been passed out of motives of kindness to the debtor and not *bonâ fide* in the interests of creditors. He may now also under section 170 of the Bankruptcy Act, 1883, refuse to register if he considers the resolutions unreasonable and not calculated to benefit the general body of the creditors.

Resolutions authorising a trustee to accept a composition or scheme of settlement under section 28 of the Act do not require registration at all. They must, however, be *approved* by the Court, and such approval is given on the Court being satisfied that the composition or scheme has been accepted by the statutory majority of creditors at a duly convened meeting, and is calculated to benefit the general body of the creditors.

6. Any company limited by shares may so far modify the conditions contained in its memorandum of association, if authorised to do so by its regulations as originally framed, or as altered by special resolution, as follows:—

As to increase its capital by the issue of new shares of such amount as it thinks expedient, or to consolidate and divide its capital into shares of larger amount than its existing shares, or to convert its paid-up shares into stock; but, except in case of changing its name, no alteration shall be made by *any* company in the conditions contained in its memorandum of association. Any transactions of a company that exceed the powers conferred upon them by the memorandum are not binding on the company, and cannot be rendered binding even by the assent of every individual shareholder; but transactions which exceed the powers conferred by the articles can be made valid by alteration of the articles by special resolution.

7. Every company under the Act shall keep a register of members containing—

(1.) The names and addresses and the occupations (if any) of the members of the company, and where the company has a capital divided into shares, of a statement of the shares held by each member, distinguishing each share by its number, and the amount paid or agreed to be considered as paid on the shares of each member.

(2.) The date at which the name of any person was entered in the register as a member.

(3.) The date at which any person ceased to be a member. If a company fail to comply with this section, they incur a penalty of not less than £5 for every day during which they make default. An imperfect register can be rectified on application to the Court.

8. The "B" list of contributories is the list of past members who have ceased to be members within a year before the commencement of the winding-up.

The "B" list is not usually settled until it has become necessary to inquire and it has been shown that the present members are unable to satisfy the debts of the company. "B" contributories are liable for the amount left unpaid on their shares by the "A" contributories, and also the amount of the debts existing at the time that each "B" contributory ceased to be a member and remaining unpaid, and his contributions are applied to the payment of the debts of the company after the assets of the company, including the contributions of the "A" contributories, have been applied in payment *pari passu* of all the debts.

9. The compulsory winding-up of a company commences at the time of the presentation of the petition for winding-up. When the winding-up is voluntary, it commences at the time of the passing of the resolution authorising such winding-up. The winding-up under supervision commences at the date of the resolution authorising the voluntary winding-up.

In bankruptcy, the rule as to set-off is,—Where there have been mutual dealings between parties and one party becomes bankrupt, the debts owing to the bankrupt are set-off against the debts owing by him, and the balance, and no more, shall be paid or claimed as the case may be.

The rule of set-off applicable to a limited company is, that there is no such thing as set-off in the case of a contributory who is also a creditor of the company. The rule in the case of an unlimited company is that the Court may allow a set-off of debts due from the company to the contributory against debts due from the contributory to the company and calls made *before* the winding-up.

11. In the case of a company petitioning to be wound-up the Court will have regard to the wishes of the majority of the shareholders, and it will only be wound-up by the Court under the following circumstances—

1. When the company has passed a special resolution requiring the company to be wound-up by the Court.

2. When the company does not commence business within a year from its incorporation, or suspends its business for the space of the whole year.

3. When the members are reduced in number to less than seven.

4. Whenever the company is unable to pay its debts.

5. When the Court is of opinion that it is just and equitable that the company should be wound-up.

THE RIGHTS AND DUTIES OF TRUSTEES, LIQUIDATORS, AND RECEIVERS.

1. The trustee should see that the affidavit in proof of debt is in proper form and has been duly sworn, and that it sets out the amount and consideration of the debt, and the date when it was contracted. He should compare the amount of the claim with the amount entered in the bankrupt's statement of affairs or shown by his books of account, and, if necessary, he should examine the debtor thereon, or require the creditor to furnish further particulars or statements of the debt. He should see that the debt is not barred by the statute of limitations, that it is a debt provable in bankruptcy, and that any negotiable instruments held as security are duly exhibited to him, and that credit is duly given for the assessed value of all securities held by the creditor.

2. Reserves should be made for:—
   1. All unpaid costs and expenses.
   2. All unpaid preferential claims.
   3. All debts due to creditors residing at a distance.
   4. All debts the subject of claims not determined.

3. He may (1.) Receive and decide on proofs of debt.
   (2.) Carry on the bankrupt's business.
   (3.) Bring or defend any action, &c.
   (4.) Deal with property to which the bankrupt is entitled as tenant in tail.
   (5.) Exercise all powers vested in him under the Act, and execute powers of attorney, deeds, and other instruments.
   (6.) Sell the bankrupt's property by auction or private contract.
   (7.) Give receipts for money received by him.
   (8.) Prove and draw dividends under the bankruptcy of any debtor to the estate (sect. 25).

4. For mortgaging or pledging the bankrupt's property, to raise money for payment of his debts.
   For referring disputes to arbitration, and compromising debts, claims, or liabilities subsisting between the bankrupt and any other person.
   For compromising claims against the estate.
   For compromising claims made on or by the trustee.
   For dividing bankrupt's property in its existing form (section 27).

5. In bankruptcy he must get the sanction of the Court under section 83 (17).
   In liquidation he may act on his own discretion (section 125 (13).

6. In compromising with a contributory under a voluntary winding-up, the liquidator should obtain the sanction of an extraordinary meeting of the company, in order to make such compromise binding.

7. The official liquidator has power, with the sanction of the Court, to carry on the business of the company so far as may be necessary for the beneficial winding-up of the same, and he is not personally liable for the debts incurred thereby.

8. The official liquidator shall investigate the claims and debts of the company so far as he is able, and shall distinguish which of the debts and claims are in his opinion justly due and proper to be allowed.

9. When a company is being wound-up by the Court, the Court may make an order and allow the books of the company to be inspected where it is deemed necessary. When the company is being wound-up voluntarily the liquidator must, as soon as conveniently may be, make up his books and accounts and lay them for inspection before a general meeting called for that purpose, but not otherwise.

10. Under a voluntary winding-up the liquidator may exercise all the powers of the Court of settling the list of contributories, and in a winding-up under supervision the liquidators may exercise all their powers without the intervention of the Court, in the same manner as though they were liquidators in a voluntary winding-up.

THE ADJUSTMENT OF PARTNERSHIP AND EXECUTORSHIP ACCOUNTS.

1. As C agreed to provide the *capital* of £1,000, that capital was not a loan to the partnership. C, not being a partner,

could not have *capital* in it; therefore, the money should go to the credit of A's capital in the partnership. Had C agreed to provide the capital under the Limited Partnership Act, it would have gone to his credit instead of to A's.

2. Any profits derived from the employment of partnership moneys, whether properly or improperly made, belong to the partnership, while any loss so made and paid is in breach of Russell Gurney's Act, and should be borne by the partner who occasioned it. Nevertheless, unless the facts were clearly recognised in writing by the partner in default, I should (in order to avoid any risk with regard to other possible similar misfeasances) prefer to charge the partner in a special account with the £150 breach, and treat the £100 as in reduction thereof. The question would, however, be subject to the power of withdrawal in anticipation of profits, as to the actual loss sustained, but it would not justify the employment of the partnership moneys for matters outside the partnership.

3. The call could not be charged to the partnership because that was determined by the death, but the proportion of the deceased partner's loss, based upon the proportions of their respective interests, would be properly chargeable to his estate in the settlement of accounts between the partners.

4. He is chargeable with any profit derived from the improper employment of the trust moneys. If no profit was derived therefrom, he is chargeable with interest thereon at the rate of per cent. per annum.

5. If the loss was sustained by culpable negligence, such as gross carelessness or drunkenness, the loss would be chargeable to the partner who lost it. If, on the other hand, it was a sheer accident, such as hurrying from one train to another, or haste to catch some person in relation to the firm's business, I should charge the loss to profit and loss account.

6. The loss cannot be chargeable to the *partnership* which was determined by A's decease, and the proportion of such loss which might have been properly chargeable in settlement of accounts with A's executors could not be so charged against A's legal representatives unless B could prove that they were assenting parties to the novation of the debt.

7. There being no agreement, it was a partnership at will, and therefore, in the absence of evidence to the contrary, the capital respectively introduced by each partner did not bear interest, and the profits were equally divisible. Therefore, there would be £150 to A and £150 to B's legal representatives.

8. The two sums of £50 each were in the nature of interest on moneys borrowed (by consented retention) for the purposes of the trust. I should, therefore, debit them to expenditure account as payments proper to be allowed. In the event of this income not sufficing to bear the same, it would become chargeable upon the Personal Estate.

MERCANTILE LAW AND THE LAW OF ARBITRATION AND AWARDS.

1. The last Act passed relating to Bills of Exchange is the Act 45 and 46 Vict. c. 43, and is entitled the Bills of Exchange Act 1882. It codifies the greater portion of the common law relating to bills of exchange, cheques, and promissory notes and re-enacts with modifications the provisions of the statutes relating to those documents.

2. The Bills of Exchange Act 1882 has made this alteration in the law, that it assimilates the law of the United Kingdom relating to bills of exchange and promissory notes, thereby placing Scotland on the same footing as England and Ireland. It repeals all former Acts upon the subject, with the exception of 16 & 17 Vict. c. 59, which relates to forged endorsements.

3. The effect upon the acceptor of a bill of exchange in case of the bankruptcy of the drawer, so far as regards his liability to the holder, is that his liability can only be discharged by payment or other satisfaction, by release, or by waiver.

The holder may prove on the bankrupt's estate for the amount of the bill in case of the acceptor's bankruptcy, the position of the drawer being in no wise altered.

4. In order that a ship may be entitled to the name and privileges of a British vessel, she must be owned and registered as one; so that no one can own a British ship but natural-born British subjects, or persons naturalised by Act of Parliament, and who have taken the oath of allegiance to Her Majesty; after naturalisation, or bodies corporate established under, and subject to, the laws of, and having their principal place of business in, the United Kingdom, or some British possession. No alien can own a British ship.

5. No ship is absolutely required to be registered, registry being only necessary to confer the privileges of a British ship. The fact of being registered, therefore, does not confer any advantage over an unregistered ship in case of a collision.

6. The Statute of Frauds was passed in the 29th year of the reign of Charles the 2nd, "for prevention of many fraudulent practices which are commonly endeavoured to be upheld by perjury and subornation of perjury." It requires that certain contracts and agreements therein specified shall be in writing or evidenced by some note or memorandum thereof in writing, and signed by the party to be charged therewith or some other person thereunto by him lawfully authorised.

7. It is not necessary to have a partnership deed in order to form a valid partnership. A, B, and C may therefore carry on business as East India merchants under any agreement, either verbal or in writing, that expresses their intention to trade together as partners.

8. Any member of an ordinary trading partnership can bind the firm by drawing, accepting, or endorsing bills of exchange. Such acceptance, to be binding, must be in connection with the business of the firm, and accepted by the partner in the name of the firm.

9. The clause in agreements providing for disputes is called the arbitration clause. Where there is a dispute between any parties to the agreement, and there is no satisfactory reason why such dispute should not be settled by arbitration, the effect of the clause is that legal proceedings will be stayed.

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THE

Accountants' Students' Journal.

A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

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NOTICE.

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THE

Accountants' Students' Journal.

JANUARY 1, 1884.

SHEFFIELD CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.

The following resolution on the subject of Society co-operation has been passed:—

"That members of any other similar students' society, on proving their membership, be admitted to the meetings of this society, and that the secretary for the time being be requested to supply any proper information upon local affairs to any such member."

INSTITUTE EXAMINATIONS.

Now that the Institute of Chartered Accountants has got fairly to work, and is possessed of a Council that is evidently alive to the interests of its members, we take the opportunity of drawing attention to a matter of considerable importance as affecting the future prosperity of the Institute, viz. its examinations. There can be no doubt that in the interests of the Institute, examinations are necessary. It is also desirable that they should be of such a character as to show the measure of the student's ability. We contend that the object of an examination is to enable the examiner to arrive at a just conclusion as to the student's capacity for his future position, whether it be in the law, medicine, the church, or the world of commerce. In order to pass an examination in the subjects required, the student has to exercise the virtues of self-denial, patience and perseverance, in no small degree, and it is only fair and reasonable that the examination, when it does take place, should be within the limits of the words recommended by the Council. This, we must say, was not the case in June last, and, as an instance, we give the question alluded to in another column by our correspondent, viz. No. 5 in the final examination on the subject of Mercantile Law: "What advantage has the owner of a registered vessel over the owner of an unregistered vessel, in the case of a collision, when his vessel is to blame?" Our correspondent corrects the answer given by us, and confirms our own experience, viz. that the answer to it was not to be found in the text of the latest edition of Smith's Mercantile Law, which was the book mentioned for this examination. Another question which we consider was manifestly out of place is No. 1 question on the same subject, as follows:—"Give the title and some short particulars of the last Act passed relating to Bills of Exchange?" It appears to us, therefore, desirable in the future interests of the Institute that questions should be set from the book itself, and not taken out of Acts of Parliament placed at the end of a book for the purposes of reference, and not with the object of giving an examiner an opportunity of setting catch questions.

While admitting the undesirability of making these examinations too easy, the questions set should not be such as, in the words of an eminent accountant, he would have "taken counsel's opinion on."—*Accountant.*

BOOKKEEPING—*continued.*

PRINCIPAL BOOKS OF ACCOUNT—*continued.*

There is this distinction between a bill and an open account, that the former represents an ascertained and acknowledged debt (or a part thereof), and that the acknowledgment is given in such a form as to make of it a "negotiable instrument," *i. e.* a document which by simple or special endorsement is transferable from one person to another. On the other hand, an open account is one requiring proof and capable of being disputed, and it can only be transferred by assignment and without any guarantee of accuracy, unless the person indebted should give an acknowledgment in writing of the actual amount of his indebtedness.

It would be as reasonable to treat the giving of an acceptance due three months hence as cash paid as it is to treat bills receivable as cash received.

The logic of the thing is soon reached. A, the debtor, owes B, the creditor, £100. Instead of cash, A gives his bill at three months. B wants the money, so he goes to C, who charges him we will say 25s. for discounting it. Has B done with the bill? Decidedly not. He has upon the responsibility of his own name as drawer and endorser, and upon the strength of A's reputation, induced C to advance him the amount (less

discount) of the bill; but B is liable thereon until A fulfils his engagement.

Necessarily cash must be charged with the proceeds of the bill discounted, as cash must be credited when it pays an acceptance, but most certainly the balance of "cash in hand" is not affected by any number of bills receivable which remain in the portfolio.

It has already been said that cash is a *generic* term, and that the cash book may consist of various volumes bound up under one or several covers.

JOURNAL.

In the same way the journal is a *generic* term, and it is not necessary that a volume bearing that title should exist; indeed, where the journal is divided into volumes it is desirable, if possible, to avoid using that word as representing one section of a class of books.

DAY BOOK.

Before dealing with the component parts of a journal it is necessary to go back to the September article, wherein it was asserted that the cash book and journal form the only two principal books of account.

This is practically correct, but not so theoretically. We must go back to first causes in order to distinguish between practice and theory.

Theory is the first cause; we must therefore deal with it before treating of practice.

Theoretically, therefore, there is only one "book of account" either under single or double entry, and that is the day book. Many of our young friends will at once say that such a book in nine cases out of ten either does not exist or is applied to a purpose entirely different to the position we assert it should, if existing, hold.

There is no term which has been so misapplied as the term day book. A day book is theoretically a diary of every day's transaction as it arises, whether such transactions be cash received or paid, bills taken or given, goods bought or sold, discounts received or allowed, &c. But coming from theory to practice, as before stated, in nine cases out of ten such a book exists only in imagination, and not *de facto*. The theoretical book is, in fact, divided into two *generic* sections, viz., cash on the one side and journal on the other. The cash is employed to record all moneys received or paid, whether through house or bank, and the journal to record all transactions other than cash. We therefore protest against the arbitrary use of the term day book as applied one day to goods bought and another day to goods sold, and suggest that the term should, in the interests of sound bookkeeping, be dropped unless it is applied to its legitimate use.

In many businesses "the journal" also exists in imagination only, *i.e.* no volume bearing that name is used. In lieu thereof a variety of volumes are substituted, such as bought book, sold book, bills payable, bills receivable, petty cash, and transfer or adjustment books. These volumes together form the theoretical journal, and they with the sections of cash are the "books (original or otherwise) of entry," the contents of which are conveyed by posting into the ledger.

A book of original entry is one wherein the transaction, which eventually finds its way to the ledger, was first recorded.

For instance, we give a bill and record the fact in the bill payable book. If we do not utilise the bill book for posting purposes and collate the bills in the transfer or adjustment book, or so-called journal, the bill book remains an original book of record, but is not a book of account in the sense of being a book whence postings are effected.

COMPANIES' ACTS—*continued.*

The Court may also, either before or after the winding-up order, arrest an absconding contributory. A company under the Act may also be wound-up voluntarily as well as by the process we have described, and a voluntary winding-up may take place—

(1.) Whenever the period, if any, fixed for the duration of the company by the articles of association expires, or whenever the event, if any, occurs, upon the occurrence of which it is provided by the articles of association that the company is to be dissolved, and the company in general meeting has passed a resolution requiring the company to be wound-up voluntarily.

(2.) Whenever the company has passed a special resolution requiring the company to be wound-up voluntarily.

(3.) Whenever the company has passed an extraordinary resolution to the effect that it has been proved to their satisfaction that the company cannot, by reason of its liabilities, continue its business, and that it is advisable to wind up the same.

We have shown in a previous article that a special resolution requires confirmation at a subsequent meeting to be held not less than fourteen days nor more than a month after the meeting at which such special resolution was passed. An extraordinary resolution differs only from a special by not requiring any subsequent confirmation. A voluntary winding-up is to be deemed to commence when the resolution authorising it is passed, and after that time no business in connection with the company must be transacted except such as is necessary for the purposes of winding it up. No shares can be transferred except with the sanction of the liquidators, nor can there be any alteration in the list of members, but the company is to exist in the same condition as to the liability of the shareholders and their responsibility to the company as when the winding-up resolution was passed. Notice must be given to the *London Gazette*, or, if the company is in Scotland or Ireland, to the *Edinburgh* and *Dublin Gazettes* respectively, of the special or extraordinary resolutions, as the case may be, that have been passed.

After the resolution to wind-up the affairs of the company voluntarily has been passed, the property of the company shall be applied in satisfaction of its lia-

bilities in equal proportions, and shall be distributed among the members according to their interests in the company, unless it be otherwise provided by the regulations. Liquidators are to be appointed to wind-up the company, and to distribute the assets. The company shall appoint one or more liquidators at a general meeting and fix the remuneration to be paid them, and if only one is appointed, he is subject to the same regulations as apply to the appointment of two, or more. Upon the appointment of liquidators all the powers of the directors end; but the company in general meeting, or the liquidators may, if necessary, prolong such powers. When there are several liquidators appointed every power given to them by the Act may be exercised by such one or more of them as may be determined at the time of their appointment. If no determination was then arrived at, such power may be exercised by any number not less than two. After their appointment the liquidators may, without the sanction of the Court, exercise all the powers of an official liquidator, to which we have previously drawn attention in our remarks on compulsory winding-up, and may settle the list of contributories, call upon them to the extent of their liability to pay all or any sum necessary to satisfy the liabilities of the company and the expenses of winding it up, and may also pay the debts of the company and adjust the rights of the contributories among themselves. A company in course of being wound-up may, before the actual commencement of the final process or during its operation, by an extraordinary resolution delegate to its creditors, or to a committee of them, the power of appointing liquidators, or any of them, and of supplying vacancies, or they may by a like resolution enter into an arrangement with the said creditors in respect to the powers that the liquidators are to exercise, and any act done under these circumstances by the creditors is equivalent to being done by the company. The liquidators may, in case of a voluntary winding-up, summon general meetings for the purpose of obtaining the consent of the company by special or extraordinary resolutions, or for any other purpose, and in cases where the winding-up lasts for a longer period than a year, they must summon a general meeting, at or near the end of the first and every succeeding year, until the winding-up is finished; and at such meeting must give an account of their stewardship during the year. When a vacancy occurs among the liquidators appointed by the company, the company may with the assent of the creditors fill up such vacancy, and for that purpose the remainir g liquidators, or a contributory of the company, may call a general meeting. Such vacancy may also be filled up on application by the remaining liquidators or by a contributory, in such manner as the Court may appoint.

Letters to the Editor.

Reduction of Currency to Decimals.

To the Editor of The Accountants' Students' Journal.

Sir,—I have pleasure in rendering my thanks to Mr. Wright for pointing out my error in working herein, which I have no doubt occurred from my hurriedly copying from a draft letter.

As to Mr. Wright's suggestion of adding 2 for 10d., or above, I quite agree that it is more correct, in fact, it is so as soon as 9d. is passed.

Yours, &c.
A. E. Bach.

22nd Dec. 1883.

Institute Examinations.

To the Editor of The Accountants' Students' Journal.

Sir,—I think that it might benefit some of those intending to enter for the future Examinations of the Institute if a notice appeared in your useful little Journal some six weeks or so previous to the date of the Examinations, reminding your readers that it is necessary to give notice of their desire to enter for the same 30 *days* at least before they take place, and that notice must be given on a printed form supplied by the Institute. Such a notice would have saved me from a serious blunder that has caused me loss of time almost irreparable. I have stumbled, and I am anxious others should not do the same. Hoping you will give this your consideration.

Yours, &c.
H. W. Biddell.

December 4th, 1883.

To the Editor of The Accountants' Students' Journal.

Sir,—Allow me to point out an inaccuracy in the answers to questions at the last final examination.

No. 4 (Bookkeeping).

You say in reference to Bills of Exchange, "If the words 'or order' are omitted, they are not 'negotiable instruments,' and must be claimed by the person designated therein as the payee."

This was formerly so; but section 8 of the Bills of Exchange Act, 1882, provides that where the words "or order" or "or bearer" are omitted, they must be taken as payable to order and negotiable by endorsement; unless words restricting the negotiability are inserted, such as pay A. B——— only.

Yours, &c.
B.

Birmingham, 6th December, 1883.

(By the 8th section of the Bills of Exchange Act, 1882, a bill is payable "to order" which does not contain words prohibiting transfer, or indicating an intention that it should not be transferred. Where, however, the words "or order" are struck out, it indicates an intention that such bill should not be transferable, and it would be payable to bearer accordingly.—Ed. *Acountants' Students' Journal.*)

Answers to Institute Examinations.

To the Editor of The Accountants' Students' Journal.

Sir,—With reference to the letter of E. H. T., on the answer given in your columns to question 5 in the Mercantile Law paper of the last examination, which recently appeared in *The Accountaui*, as I am responsible for that answer, perhaps you will allow me space for a few words in reply. Smith's Mercantile Law is the book recommended to students, and on referring to that I find in connection with the subjcet of registration these words:

"It is to be observed that no ship is absolutely required to be registered, registry being only necessary to confer the privileges of a British Ship." In order to be quite convinced that my learned friend Smith was as correct on this point as he usually is on others. I referred to Maude and Pollock, which it is needless to say is a work of the highest authority; and in page 29 I found this corroboration of Smith's statement. "At present the peculiar rights of British ship are substantially confined to the right of assuming the national character and flag, and of claiming protection therefrom." As the space at my disposal was not so great in the columns of the *Accountant*, as it would have been on the paper at an examination, I contented myself with the answer recorded, considering it sufficient for all necessary purposes; and I am still of the same opinion. It would certainly require more ingenuity than I possess to perceive the slightest connection between Smith's Mercantile Law as the subject of an examination, and the Merchant Shipping Act of 1862.

Yours, &c.

Your Legal Correspondent.

The following is the letter referred to :—

Institute Examinations—Answers to Questions.

To the Editor of The Accountant.

Sir,—In the answer to question No. 5 of the Mercantile Law Paper set at the Final Examination in June last, your correspondent says that the owner of a registered ship *has no advantage* over the owner of an unregistered ship in the case of a collision. This is not so. He has this advantage, that his liability for damage done to goods, &c. and also loss of life, is limited to £15 per ton on the registered tonnage of his ship; whereas if his ship were not registered he would be liable to the full extent of his other assets.

This is provided by the 54th section of the Merchant Shipping Act Amendment Act, 1862 (25 and 26 Vict. cap. 63), which is as follows :—

"The owners of any ship, whether British or Foreign, "shall not, in cases where all or any of the following "events occur without their actual fault or privity (that is to say)—

"(1.) Where any loss of life or personal injury is "caused to any person being carried in such ship :

"(2.) Where any damage or loss is caused to any "goods, merchandise, or other things whatsoever on "board any such ship :

"(3.) Where any loss of life or personal injury is by "reason of the improper navigation of such ship as "aforesaid caused to any person carried in any "other ship or boat :

"(4.) Where any loss or damage is by reason of the "improper navigation of such ship as aforesaid "caused to any other ship or boat, or to any goods, "merchandise, or other things whatsoever on board "any other ship or boat :

"be answerable to damages in respect to loss of life or "personal injury, either alone or together with loss or "damage to ships, boats, goods, merchandise, or other "things, to an aggregate amount exceeding fifteen pounds "for each ton of their ship's tonnage; nor in respect of "loss or damage to ships, goods, merchandise, or other "things, whether there be in addition loss of life or per-"sonal injury or not, to an aggregate amount exceeding "eight pounds for each ton of the ship's tonnage; such "tonnage to be the registered tonnage in the case of sail-"ing ships, and in the case of steam ships the gross ton-"nage without deduction on account of engine room."

The Act of 1862 is to be construed with, and part of the Merchant Shipping Act, 1854 (the principal Act). Section 516 of the principal Act says that "nothing in the ninth "part of this Act contained shall be construed to extend "to any British ship not being a recognised British ship "within the meaning of this Act."

The ninth part of the principal Act refers to the Limitation of Liability of Shipowners, and the 54th section of the Act of 1862 is an addition to this ninth part, and a "British ship not being a recognised British ship within the meaning of this Act" means an *unregistered* ship, showing that the legislature did not mean to extend to owners of unregistered ships the privilege of limited liability.

The section above quoted is not mentioned in the text in Smith's Mercantile Law, and can only be found by going through the Acts in the appendix, which I need hardly say are very voluminous.

Yours, &c.

E. H. T.

Manchester, 27th November, 1883.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

At a meeting of the Council held on December 5th, 1883, The following applicants were admitted Associates :—Richard Radnor Robarts, 14 Brown Street, Manchester; Arthur Bennett, clerk to L. Voisey, Guildhall Chambers, Lloyd Street, Manchester; Horace Cawood, clerk to W. G. Hawson, Hartshead Chambers, Sheffield; Mein Wilkie, clerk to B. Smith & Sons, 22 Darlington Street, Wolverhampton; Alexander Alfred Yeatman, clerk to Bauer & Co., 10 Newgate Street, E.C.

A report of the Accountants' Benevolent Association Committee recommending the establishment of a "Chartered Accountants' Benevolent Association," and setting forth a proposed scheme for the formation of such an Association was presented. It was resolved that the proposed scheme be printed, and forwarded to all the members of the Council with an invitation to them to make suggestions thereon, and to forward such suggestions to the Secretary not later than the 24th instant, in order that the scheme might be further considered by the Committee in time to be presented to the Council at their next meeting.

The General Purposes Committee reported that they had prepared a form of draft articles, and they recommended that the form should be issued gratuitously to any members of the Institute desiring to avail themselves of it. They also recommended that on admission to membership of the Institute of Associates not in practice, a certificate should be issued to them bearing the seal of the Institute. These recommendations of the committee were adopted.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY.

BILLS OF EXCHANGE.

At a general meeting of the above society held on the 13th Nov., Mr. Allen Edwards, F.C.A., delivered the following lecture on Bills of Exchange :—

Dean Ramsey, in his delightful *Reminiscences of Scottish Life and Character*, tells the following story :—"In Lanarkshire

there lived a sma' sma' laird named Hamilton, who was noted for his eccentricity. On one occasion a neighbour waited on him and requested his name as an accommodation to a bit bill for twenty pounds, at three months' date, which led to the following characteristic and truly Scottish colloquy: 'Na, na, I canna do that.' 'What for no, laird? Ye hae dune the same thing for ithers.' 'Aye, aye, Tammas, but there's wheels within wheels, ye ken naething about. I canna do't.' 'It's a sma' affair to refuse me, laird.' 'Well, ye see, Tammas, if I was to pit my name till't, ye wad get the siller frae the bank, and when the time came round ye wadna be ready, and I wad hae to pay't. Sae then you and me wad quarrel; sae we may just as well quarrel the noo, as lang's the siller's in ma pouch.' "

This story might very well be remembered by the accountant, for no one knows better than he the ruin that is caused by the indiscriminate use of accommodation bills as a means of raising the wind. The Scotchman's excuse for refusing to be a party to such an instrument was a most admirable one, and might well be employed by hundreds of others who are either too weak-minded or too good-natured to be able to withstand the importunities of their friends in such matters. But I shall have more to say about the subject of accommodation bills later on.

For a good definition of a Bill of Exchange perhaps we cannot do better than refer to old Blackstone, who writes as follows:—"A bill of exchange is a security originally invented "among merchants in different countries for the more easy "remittance of money from the one to the other, which has "since spread itself into almost all pecuniary transactions. It "is an open letter of request from one man to another desiring "him to pay a sum named therein to a third person on his "account, by which means a man at the most distant part of "the world may have money remitted to him from any trading "country. If A lives in Jamaica, and owes B, who lives in "England, £1,00; now if C be going from England to "Jamaica, he may pay B this £1,000 and take a bill of "exchange drawn by B in England upon A in Jamaica, and "receive it when he comes thither. Thus does B receive his "debt, at any distance of place, by transferring it to C, who "carries over his money in paper credit without danger of "robbery or loss. This method is said to have been brought "into general use by the Jews and Lombards, when banished "for their usury and other vices, in order the more easily to "draw their effects out of France and England, into those "countries in which they had chosen to reside, But the "invention of it was a little earlier, for the Jews were banished "out of Guienne in 1287, and out of England in 1290, and in "1236 the use of paper credit was introduced into the Mogul "empire in China. In common speech such a bill is frequently "called a draft, but a bill of exchange is the more legal and "mercantile expression. The person, however, who writes this "letter is called in law the *drawer*, and he to whom it is written "the *drawee*; and the third person or negotiator to whom it is "payable (whether especially named or the *bearer* generally) is "called the *payee*. These bills are either *foreign* or *inland*; "*foreign* when drawn by a merchant residing abroad upon his "correspondent in England, or *vice versa*, and *inland* when "both the drawer and drawee reside within the Kingdom. "Promissory notes or notes of hand are a plain and direct "engagement, in writing, to pay a sum specified at the time "therein limited to a person therein named, or sometimes to "his order or often to the bearer at large."

Such is Blackstone's definition.

The Bills of Exchange Act, 1882, gives the following definitions:—

(1.) A bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer.

(2.) A promissory note is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer.

(3.) An inland bill is a bill which is or on the face of it purports to be both drawn and payable within the British Islands, or drawn within the British Islands upon some person resident therein. Any other bill is a foreign bill.

(4.) A cheque is a bill of exchange drawn on a banker payable on demand.

Although the foregoing definitions are most excellent ones, I think they fail to set forth some of the major advantages of bills of exchange and promissory notes. I will endeavour to explain to give you a few of those advantages:—

(1.) Such bills or notes enable the drawer *or receiver*, by paying a small consideration to the financier (called discount), to *immediately convert into cash*, on certain conditions, a debt due to him at some future date.

(2.) They are a convenient means of fixing (in a manner which cannot afterwards be departed from except by mutual consent) the exact date when a certain debt shall be paid. The utility of this means in the case of shifty or careless customers cannot be over-estimated.

(3.) They are convenient and useful instruments in the borrowing and lending of money and of fixing suretyships, for without their simple agency, elaborate and expensive bonds, and other technical agreements would frequently be necessary.

(4.) They are useful in the payment of compositions, for where, in such cases, creditors have to be put all on the same footing, so that no one may have an advantage over his neighbour, the giving of bills to all prevents any individual creditor from taking proceedings before the time when an instalment of the composition falls due.

(5.) They constitute a legal and binding acknowledgment of money owing. The importance of this will be appreciated when it is remembered how extremely difficult it frequently is in cases of litigation to prove that money is due and the amount thereof.

(6.) They are an easy and simple means of transferring or assigning a debt. Transfers or assignments of debts by any other means are as a rule unsatisfactory, for in such cases not only does the assignee have to prove the assignment, but he also oftentimes has to prove the debt; which in the absence of the assignor or his servants is frequently impossible.

Bills of Exchange have their disadvantages, for though they are very useful in the hands of those who know how to work them properly, they are dangerous and often fatal to those who do not. There is a story told of a man who owed his neighbour £100, and after making many applications for the money without success, the creditor obtained an acceptance for the amount. As soon as the drawer's back was turned, the acceptor heaved a sigh of relief and exclaimed, "Thank God, that's done with." Although this is no doubt fiction, such a case is by no means unlikely. To thoughtless and careless men bills are like volcanoes, oftentimes bursting out, as it were, when they are least expected or prepared for. Your own experience will tell you how many men omit to keep even a record of the bills they accept, or which they discount with their bankers. And the newspapers teem with cases where improvident and thoughtless men have ruined themselves and their friends by the indiscriminate accepting of bills.

But among the other disadvantages of bills, let me mention this one. If you draw upon your customer for an amount, say at three months, and he accepts, you are precluded from taking any proceedings against him in respect of the debt until the bill becomes due, and in the meantime others of his creditors may obtain executions against him, and all the estate may disappear befor you can stir a step. But! under the new Bankruptcy Act, if the debtor commits an act of bankruptcy, you may present a petition against him, if your amount be sufficient, notwithstanding your bill may not have matured.

I will now give you the most general forms of Bills of Exchange and Promissory Notes:

(1.) Ordinary Bill of Exchange.

£100. Birmingham, 1st November 1883.

Three months after date pay to my order the sum of one hundred pounds for value received.

To Mr. Thomas Jones, (Signed) John Smith.
Master, Manchester.

In this form the bill is called a draft, and is sent to Jones for his acceptance. He writes across it, "Accepted, payable at the Bounty Bank, London, Thomas Jones."

(2.) Promissory note.

£100. Birmingham, 1st Nov. 1883.

Three months after date I promise to pay to the order of John Smith the sum of one hundred pounds for value received. Thomas Jones.

Payable at
The Bounty Bank, London.

(3.) Promissory note.

£100. Birmingham, 1st Nov. 1883.

Three months after date *we jointly and severally* promise to pay to the order of John Smith the sum of one hundred pounds for value received.

Payable at Thomas Jones,
The Bounty Bank, London. Richard Brown.

The object of the words *jointly and severally* is to make each of the makers of the promissory note liable for the full amount, and to be sued separately therefor.

(4.) Promissory note.

£100. Birmingham, 1st Nov. 1883.

Three months after date we jointly and severally, *or any two or more of us*, promise to pay to the order of John Smith the sum of one hundred pounds for value received. Thomas Jones,
Richard Brown,

Payable at James Robinson,
The Bounty Bank, London. Henry Johnson.

In this case, as in the last, each of the persons signing the note may be sued separately for the whole amount. The words "*or any two or more of us*" enable the holder of the note to sue any two or more of the signatories as he may deem best.

I shall refer to foreign bills drawn in sets further on.

In all the foregoing forms the following particulars are stated:—

The date of the bill.
The amount.
The time.
The names of drawer, acceptor, and payee.
The place where the bill is payable.
The consideration.

The words "value received" denote the consideration. The bills are payable three days after they become due—these three days being called days of grace. If the last day of grace is a Sunday, Christmas Day or Good Friday, the bill is payable on the day before. If it be a Bank Holiday the bill is payable the day after. If the last day of grace be a Sunday and the second day of grace a Bank Holiday, the bill is due on the succeeding business day. If a bill be drawn in this form:—"On the 2nd January, 1883, pay to my order, &c.," the bill is due on the 5th January.

Bills are sometimes drawn payable at so many days' sight: then they must be presented for acceptance in order to fix the due date. *Three days' grace* must be added to the days of sight mentioned in the bill before the due date can be ascertained. There are no days of grace in the case of bills and cheques made payable on demand. The number of days of grace varies in different countries. In many countries there are no days of grace at all.

An *ad valorem* duty, called a stamp, is payable on all bills negotiated in this country. In the case of inland bills the stamp must be impressed—but the duty on foreign bills may be paid by adhesive stamps. The reason of this is that it is not required to pay the duty unless the bills are subsequently negotiated in this country.

It will not be possible in the course of a single lecture to give you all the law relating to bills of exchange. In the year 1882 an Act was passed called "The Bills of Exchange Act, 1882," which codified the whole of the laws relating to bills of exchange, cheques, and promissory notes, and came into immediate operation. The Act is peculiar in the respect that it is the first piece of codification which has found its way into the statute book. I suppose we may consider the Birmingham Consolidation Act, 1883, as another successful attempt at codification. A convenient edition of the "Bills of Exchange Act, 1882," has been published by Mr. Chalmers, the draftsman of the bill (who, by the way, was also the draftsman of the new Bankruptcy Act). This edition may be obtained of Messrs. Waterlow & Sons, Limited, and as the price is very moderate, viz., under 3s., I should strongly recommend you all to purchase a copy. The wording of the Act is exceedingly simple and ought readily to be understood by all of you. I will endeavour to explain the more important of the sections of the Act, which I think those who follow our profession should be conversant with. To commence:—

A Bill is not invalid

(1.) If it be not signed by the drawer before it is accepted.
(2.) If it is not dated.
(3.) If the value given is not specified, or if no consideration or value is stated at all.
(4.) If it is not specified where the bill is drawn or where it is payable.
(5.) If it does not contain any words in the acceptance beyond the bare signature of the drawee.
(6.) If it be ante dated or post dated, or dated on a Sunday.

A bill may be made payable—

(1.) To the drawer or his order.
(2.) To the drawee or his order.
(3.) To one or more third parties specified or order.
(4.) To bearer.
(5.) To the holder of an office for the time being.

A bill may be made payable with interest.

" " by stated instalments.
" " by stated instalments, with a proviso that on default in payment of any instalment, the whole shall become due.

A bill may be made payable according to an indicated rate of exchange.

Where in a bill there is a discrepancy between the words and the figures denoting the amount, the sum denoted by the words shall be payable.

The term month in a bill always means calendar month.

The person to whom a bill is payable is called the payee. Before the payee can negotiate the bill he must endorse it. If he simply write his name on the back, the bill becomes payable to "bearer" without further endorsement. But the original payee may endorse it as follows:—

Pay to the order of Henry Jackson.
(Signed) John Smith.

Henry Jackson then becomes the payee, and may deal with the bill in the same manner as John Smith.

But suppose the original payee wishes to endorse the bill to Henry Jackson on the understanding that Henry Jackson or his endorsees are not to have any claim on him (the original payee) should the drawer and acceptor both fail to meet the bill, the following words are used—

Pay to the order of Henry Jackson,
Without reccourse,
John Smith.

This endorsement should always be used when the payee sells the bill out and out at the risk of the purchaser. It is also usual where the endorsement is only a matter of formality to give the bill currency.

Where a bill is payable to the order of two or more payees or endorsees who are not partners, all must endorse, unless the one endorsing has authority to endorse for the others.

Sometimes the endorsements on the back of a bill take up so much room that there is no room for any others that

may be required. A slip of paper called an "allonge" is then attached to the bill. To avoid the possibility of fraud the first endorsement on the allonge is usually begun on the bill and completed on the allonge.

Where, in a bill payable to order, the payee or endorsee is wrongly designated, or his name is mis-spelt, he may endorse the bill as therein described, adding, if he think fit, his proper signature.

If a bill were made payable to Mrs. John Jones, the best way to endorse it would be "Ellen Jones, wife of John Jones."

Sometimes a bill bears what is called a restrictive endorsement, which may prohibit the further negotiation of the bill, or express that it is a mere authority to deal with the bill as thereby directed. The following are examples—"Pay D only," "Pay D for the account of X," &c., &c.

A bill may be made payable on the death of a certain person. Sometimes foreign bills are payable at "usance,"—that is, according to the usage of the countries between which the bill is drawn as to the time of payment. An usance between London, Holland, Germany, Belgium, and France is generally one calendar month; between London and Spain and Portugal, 2 calendar months; and between London and Italy, 3 calendar months.

A blank bill stamp with only a bare signature of the intended acceptor may be filled up for the amount covered by the stamp where it has been obtained by the holder *bonâ fide*.

Where a bill is drawn or endorsed by an infant, minor or corporation having no capacity or power to incur liability on a bill, the holder may receive payment of the bill, and may enforce it against any other parties thereto.

A signature by procuration operates as notice that the agent has but a limited authority to sign, and the principal is only bound by such signature if the agent in so signing was acting within the actual limits of his authority.

But care should be taken in the signing of a bill on behalf of another person or firm, or the signer may be rendered personally liable. Say the name of the signer is James Harrison, and his principals Jones and Co., or the Coal Company, Limited.

If he sign—

1). James Harrison,
Clerk to Jones and Co.,

or (2.) James Harrison,
Secretary to the Coal Company, Limited,

he may be rendered personally liable.

He should sign,

(1.) Per pro., Jones and Co.,
James Harrison.

or (2) For and on behalf of the Coal Company, Limited,
James Harrison, Secretary.

This cannot be too strongly borne in mind, especially where the drawing, accepting or endorsing is made on behalf of a Company. Directors have frequently been held liable where they have not observed this precaution.

The holder of a bill of exchange has certain duties which it would be well for him to be conversant with, or his rights under the bill may vanish: that is to say his rights against the drawer and endorsers. He must above all things, notwithstanding he may be positively certain it will be dishonoured, present the bill for payment on the day when and at the place where it falls due. If he fail to do so, and the bill be subsequently dishonoured, the drawer or endorser might say on application to them for payment,—"Oh, no; if you had presented the bill as provided on the face of it, it would have been met, but between the due date and the date of your presentation, the acceptor became bankrupt, and you must therefore suffer for your own negligence. We are discharged." This explains why it is usual, though it is not necessary, to note an inland bill, viz. to preserve the holder's rights against drawer and endorsers. The course of procedure is generally as follows:—The holder or his agent, or banker, presents the bill for payment as provided for on the face thereof. If the bill be not paid, the person presenting it leaves a notice at the place of presentation saying that the bill has been presented, and that it lies at a certain place, which is named, where it may be taken up. If it be not taken up during the day, it is handed to the notary, who makes what may be called an official presentation, and if the bill be still dishonoured, he makes an entry of dishonour in his books, which entry is generally considered evidence against all parties of the proper presentation of the bill.

A notary public is a person who occupies an official position under the civil law, and his seal of office is universally recognised as a sufficient voucher in matters of a commercial character, for the facts attested by any document to which that seal is affixed; a protest under a foreign notarial seal is evidence in our courts of law in England.

Bills and cheques payable on demand should be presented for payment within a reasonable time. If not, and the acceptor or banker fail in the meantime, the rights against the drawer may be lost.

Many bills, especially foreign bills, come into the hands of the payee before they are accepted; then they should be presented for acceptance, but this is not necessary in all cases. Many a bill is presented for acceptance and payment at the same time; or, in other words, is presented for payment before it has been accepted. But if the bill be payable elsewhere than at the residence or place of business of the drawee, it *must* be presented for acceptance. The reason for this is obvious.

Bills payable after sight must be negotiated or presented for acceptance within a reasonable time, or the rights against drawer and endorsers may be lost.

If a bill be presented for acceptance and be not accepted within the customary time (usually 24 hours), the person presenting it must treat it as dishonoured by non-acceptance, and the holder has an immediate right of recourse against drawer and endorsers, unless otherwise restricted; but he must give the necessary notices of dishonour as in the case of non-payment.

An acceptance may be qualified, *i.e.* the acceptor may accept for part of the amount only, or may accept payable against delivery of bill of lading, &c. &c. In this case notice of qualification should be sent to the drawer and endorsers. If it be foreign bill and be accepted for part only, it must be protested or noted as to the balance.

Where a bill has either by non-acceptance or non-payment been dishonoured, the holder or his agent must within the prescribed time give notice of dishonour to the drawer and each endorser, or the drawer and endorsers may be discharged. The return of a dishonoured bill to the drawer or endorser is deemed sufficient notice of dishonour.

A bill must be presented for payment on the due date, notwithstanding the death or bankruptcy of the acceptor. Although, as I have before stated, it is not necessary to note an *inland* bill in order to preserve the rights against drawer or endorser, a foreign bill *must* be protested for non-acceptance or non-payment, as the case may be.

It is not, however, necessary to protest a foreign promissory note. Why, I do not know. Protesting is a stronger form of noting. Except as otherwise provided, a bill must be protested on the day of dishonour, and at the place where it is dishonoured. The protest must contain a copy of the bill, be signed by a notary, and must specify certain particulars (as cause of dishonour, &c.) as provided by the Act.

Where the services of a notary cannot be obtained at the place where a bill is dishonoured, any householder or substantial resident of the place may in the presence of two witnesses give a certificate signed by them attesting the dishonour of the bill, and this certificate shall operate as if it were a formal protest. In such a case the following form should be adhered to as nearly as possible:—

Know all men that I A. B. (householder) of in the County of in the United Kingdom, at the request

of C. D., there being no notary public available, did on the day of 188 at demand payment (or acceptance) of the bill of exchange hereunder written from E. F., to which demand he made answer (state answer if any), wherefore I now in the presence of G. H. and J. K. do protest the said bill of exchange. (Signed), A. B.

G. H. } Witnesses.
J. K. }

The bill itself should be annexed, or a copy of the bill and all that is written thereon should be under-written.

Subject to the provisions of the Bills of Exchange Act, when a bill is dishonoured by non-payment an immediate right of recourse against the drawer and endorsers accrues to the holder.

It may be taken for granted that the acceptor of a bill is always liable on it, notwithstanding that the bill—

(1.) May not have been presented for payment or presented on the right day.

(2.) May not have been noted or protested.

(3.) May have been dishonoured, and notice of dishonour not have been sent to the acceptor.

When the holder of a bill or his agent presents it for payment he must exhibit it to the person from whom he demands payment.

When a bill has been dishonoured, the holder may recover from any person liable on the bill, *i.e.*, if he have duly presented the bill for payment and given the necessary notices of dishonour. If the drawer pay the bill he may recover from the acceptor. If an endorser has been obliged to pay the bill he may recover from the acceptor, or the drawer, or a prior endorser. The sum which may be recovered by law includes, in addition to the amount of the bill, the expenses of noting and also interest.

If the holder of a bill allow the acceptor further time for payment without the knowledge or consent of the drawer and endorsers, the latter are discharged. The reason for this is obvious. If a man is surety for payment of a debt of another, the creditor cannot release the principal debtor from his debt without also releasing the surety; nor can he extend his time for paying it or grant to him any terms which may place the surety in a more disadvantageous position. On bills of exchange the acceptor is the party primarily liable to pay, and is therefore considered to be the principal debtor; but all other persons whose names are upon it being also liable to pay if the acceptor makes default, they are regarded as sureties for the acceptor.

According to section 60 of the Act, when a bill or cheque is drawn on a banker to order on demand, and the banker pays it in good faith, he is not liable should the endorsement be forged or made without authority. But Mr. Chalmers says, in a note to section 24, "If a banker "pays an acceptance held under a forged endorsement he cannot "debit his customer with the amount so paid." This is somewhat conflicting. But I understand, and my opinion is endorsed by an eminent Birmingham bank manager, that if, in the case of a forged endorsement, the instrument is payable "on demand," the banker is not liable, but if otherwise he is.

Sometimes a bill contains a reference "in case of need," or is accepted or paid "for honour" as it is called. For instance, if A in London wishes to draw upon B in Paris, and he sends the draft to C, who is also in Paris, he may refer the bill to another person in Paris, in case B does not accept the bill or pay it at maturity. For it will be apparent that it might seriously injure A's credit with C if he sent him a bill which might turn out bad, so the bill contains a reference to D in case of need.

And whether the bill contain a reference in case of need or not, it may be taken as a general rule that any person in case of dishonour by non-acceptance or non-payment of a bill may intervene and accept or pay it for the honour of any person liable on the bill. If accepted for honour it should be distinctly stated for whose honour it is so accepted. The acceptor for honour is liable on the bill to the same extent as the person for whose honour he accepts.

When a dishonoured bill has been accepted for honour *supra protest*, or contains a reference in case of need, it must be protested for non-payment as against the original drawee before it can be presented for payment to the acceptor for honour or referee in case of need, and it must be so presented or forwarded for presentation not later than the day following its maturity.

Payment for honour must be attested by what is called *a notarial act of honour*, in order to preserve the rights of the person for whose honour the bill is paid. The payer for honour is entitled to have the bill delivered up to him.

If a bill be lost before it become due, the owner may, on giving the necessary security for indemnity, compel the acceptor to give him another bill of the same tenour.

Foreign bills are frequently drawn in sets of three. This is to provide against loss or miscarriage. Thus, if A in Monte Video wishes to draw on B in London and to send the draft to C, he may wish to provide against the loss or miscarriage of the draft, so that C may not have to wait for another mail before he can collect the money from B. To effect this insurance A draws three bills and sends them to C under separate covers. The bills then are drawn somewhat in the following manner:—

At 8 days' sight pay this first Bill of Exchange, second and third of the same tenor unpaid, to the order of C, the sum of one hundred pounds for value received.
To B. (Signed) A.

Then if C. duly receive the first of the set he makes no use of the other two; if the first miscarry he uses the second, and so on. It may be taken as a general rule that the due payment of one bill of a set discharges all the others, for all bills of a set are by law reckoned to constitute one bill. But if the holder of a set endorses and circulates two or more parts to different person he is liable on every such part. If two or more parts of a bill are in circulation, the drawee must pay the holder of the part whose title first accrues, but he is safe if he accepts or pays the part first presented to him. And if the drawee has accepted one part of a bill and he pays another part, without the production of the part he has accepted, he is liable on that part also to a holder in due course. And if the drawee accepts more than one part, and the parts get into the hands of separate holders, he is liable on every such part as if they were separate bills.

It will be readily understood that different countries have different laws on the subject of bills of exchange.

Then (1.) the duties of a holder as regards presentment for acceptance or payment, protest and notice of dishonour, are determined by the law of the place where the act is done or the bill is dishonoured.

(2.) Where a bill is drawn out of England and payable in England, and the value expressed in other than English currency, the amount is calculated according to the rate of exchange for sight drafts at the place of payment on the day when the bill is payable.

(3.) When a bill is drawn in one country and payable in another, the due date thereof is determined according to the law of the place where it is payable. It should be remembered that there are no days of grace in France. A bill drawn in Paris on London is entitled to three days of grace, while a bill drawn in London on Paris is not entitled to any days of grace.

4.) The validity of a bill as regards requisites in form, is determined by the law of the place of issue; and the validity as regards requisites in form of the supervening contracts, such as acceptance or endorsement for acceptances *supra protest*, is determined by the law of the place where such contract was made.

CHEQUES.

It may be taken as a general rule that the provisions of the Bills of Exchange Act as regards bills payable on demand, apply to cheques payable by a banker.

Perhaps the principal thing to be remembered as regards cheques applies to the subject of presentation. If the holder of a cheque fail to present it for payment within a reasonable time,

and the person or bank on whom the cheque is drawn suspend payment in the meantime, and if the drawer at the time had sufficient funds at the drawee's to meet the cheque, then whatever loss there may be falls upon the holder, and the drawer is discharged. But the holder has a right of proof on the drawee's estate. For example, A. draws a cheque for £100 on his banker, which is not presented within a reasonable time. The banker fails, A. having at the time sufficient money to his credit to meet the cheque; A. is discharged, but the holder can prove for £100 against the banker's estate. The moral of this is, always present your cheques as soon as received.

Inasmuch as a cheque is a bill of exchange, it follows that if dishonoured on presentment, notice of dishonour must be given to the drawer (and endorser if any).

A banker must not pay a customer's cheque

(1.) If he have received notice of countermand.

(2.) If he have received notice or knowledge of the customer's death.

(3.) If he have received notice or knowledge that the customer have committed an act of bankruptcy.

If a banker, having sufficient funds in hand, dishonours his customer's cheques, he is liable to him in action for damages.

If a cheque be crossed, it must only be paid through a banker. A cheque may be crossed in the following ways:—

(1.) By the addition of two parallel transverse lines.

(2.) By two such lines and the words "& Co." or the name of a banker. If the name of a banker be inserted, the cheque must only be paid to that banker; and if in addition to the name of the banker the name of the customer's account with that banker is added, then the cheque must be credited to that customer's account only. Such a crossing constitutes an almost perfect safeguard; and I would strongly advise all accountants when making payment by cheque, to cross the cheque with the payee's name and bank. If the name of the bank is not known, then the name of the account of the payee should be inserted with the words "& Co." Thus—

& Co.

——a/c WILLIAM SMITH.

A cheque may be crossed with the name of a town, which signifies that the cheque must only be paid to a banker in that town.

The crossing may be made by the drawer, or the holder, or the banker who presents it for payment.

Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.

Notwithstanding a cheque be crossed "not negotiable," it may be passed from hand to hand in the same manner as if it were not so crossed. But a person taking a cheque so crossed should be careful from whom he takes it, as he cannot by law have a better right to the cheque than the last holder. Thus, if he takes it from a thief who has stolen it, the thief cannot of course have any right to the cheque or to payment of it; therefore, neither can the person to whom the thief pays it have such right.

It thus appears that a person receiving a cheque crossed "not negotiable" does so at his own risk. The same rule applies to bills negotiated after maturity. A bill *may* be negotiated after maturity, but only subject to any defect of title affecting it at its maturity, and thenceforward no person who takes it can acquire or give a better title than that which the person from whom he took it had. And upon this point it should be remembered that a bill payable on demand is deemed to be overdue for the purposes I have just referred to, when it appears on the face of it to have been in circulation for an unreasonable length of time, and the rule also applies to stale cheques.

With very few exceptions, bankers by the Bank Charter Act are not allowed to issue bank notes, so they may not make or accept any bill or note payable to *bearer on demand.*

STAMPS.

The *ad valorem* duty on a bill, note, or cheque payable on demand is one penny. This may be paid by an adhesive stamp which should be cancelled by the drawer before issue of the instrument. But if the drawer have omitted to affix the stamp the presenter or banker may do so.

The duty upon foreign bills may also be paid by adhesive stamps. The reason for this I have explained before. If you pay a foreign bill unstamped into your bank, the banker as a rule affixes the stamp and charges the same to your account. The cancellation of an adhesive stamp should contain the name or initials of cancellor, and also the date of cancellation. The omission to cancel may incur a liability of £10.

In cases other than bills or cheques on demand and foreign bills the stamp must be impressed before the bill is drawn. The penalty for neglect is £10.

Bills must only be drawn on Bill Stamps. But supposing you wish to draw a bill and you have not a bill stamp handy, but you have an agreement or other impressed stamp of the required amount, you may then draw the bill on that stamp, but in that case you must send the bill to be properly stamped, and pay the duty over again and also the penalty. If at the time of stamping, the bill is not due the penalty is £2; if it is due the penalty is £10. In no other case may a Bill of Exchange be stamped with an impressed stamp after the execution thereof.

The impressed stamp on a bill contains the words "Bill or note."

In the case of Bills in sets, only one part need be stamped. I believe it occasionally happens that one part of a bill is stamped and another part accepted. I imagine the practice then would be to fasten the two parts together and present them as one bill so fastened.

It is not legal to issue post dated cheques. Such cheques are deemed to be bills or notes payable on a certain day in the future, and, as such, are liable to the regular stamp duty. The liability to penalty is £10.

You all of you know the stamp duties payable upon Bills of Exchange. If you do not you ought to. The information is to be found in nearly every almanack and diary published. But there are certain bills or notes that are not liable to duty at all. Among these are the following:—

(1.) Bills or notes issued by the banks of England and Ireland

(2.) Bills or drafts of one banker in the United Kingdom on another banker in the United Kingdom for the purposes of clearance or of adjusting accounts between such bankers.

(3.) Letters or orders by one banker in the United Kingdom to another banker in the United Kingdom for payment of money to third parties.

(4.) Drafts of the Accountant General in Chancery in England or Ireland.

(5.) Warrants for payment of Government annuities or o interest in national debt or other Government securities

(6.) Coupons or warrants for interest attached to and issued with any security.

There are some other exceptions from stamp duties which I need not now mention.

While upon this subject, it may be interesting to mention that although bank notes issued by the Banks of England and Ireland are exempt from stamp duty, the bank notes issued by other banks are not so exempt. It is not, however, many banks that have the privilege of issuing bank notes. The names of those banks so

privileged are I believe to be found in the Bank Charter Act. The duties payable are to be found in the Stamp Act of 1870. They are very much heavier than the duties on ordinary bills of Exchange, for the reason I suppose because there is no limit to the number of times they may be issued. Many banks are allowed to issue unstamped bank notes, and to compound for the duty at stated times. In such cases they are compelled to make periodical returns of their issue.

A few words about discounting bills may not be out of place here. Bills are usually discounted with bankers, but bill discounting has long been a profitable business with money lenders and other persons—other than bankers. The amount charged for advancing the money on a bill before it is due is called the "discount," and it becomes everyone before he discounts a bill to have a proper understanding as to what the discount shall be. And here let me advise every one of you to see that your clients have a proper understanding in writing from their bankers as to what their terms shall be on the following heads:—

(1.) Commission on turnover.

(2.) Interest charged on overdraft.

(3.) Discount on bills.

(4.) Interest allowed on money in hand.

The letter containing these terms should be gummed to the fly-leaf of the private ledger, and will be found most useful in case of reference or dispute.

The discount on bills charged by bankers varies according to the price of money. With Birmingham banks, in the absence of any other arrangement, the charge is very frequently 1 per cent. above bank rate, and never less than 4 per cent., while the interest charged on an overdrawn account is generally 1 per cent. above bank rate, and never less than 5 per cent. I consider that bank discounts should always be checked, for bankers are as liable to make mistakes as any other persons. The checking of the discounts can easily be done with interest tables, reckoning the number of days from the date of payment in until the due date. As a rule the discount charged by private bill discounters is greater than that charged by bankers, because it most frequently happens that the bills discounted by such firms have been already refused by bankers, or would be refused if taken to them. The greater the risk the greater should be the profit is a universal rule. Bankers should always enter the discount on a bill in the customer's pass book on the date or day after the bill is paid in. Some bankers do not do so, but add all the discounts together, and charge them in one sum at the end of the six months of balancing. This plan should always be resisted, because it does not admit of accurate checking.

Some bankers who allow their customers to overdraw their accounts, notwithstanding they may have good security, will sometimes ask for a bill at three months for the amount of the overdraft as "collateral security," as they call it. No difficulty is offered to the renewal of such bills, and this is usually done every three months. The customer should not submit to such a practice. For he not only has to pay the cost of the bill stamp four times every year, but he also has to pay the commission in the increased turnover. Thus, if the bill be for £1,000, he will have to pay £2 per annum for stamp duty, and commission on £4,000, for the turnover will be increased by that amount by the £1,000 bill passing through the account four times every year. In many cases it is *only* for the purpose of obtaining such increased commission that bankers ask for these collateral security bills, and if this fact were more generally known, such bills would less frequently be given.

I have promised to say a few words on the subject of accommodation bills. These may be briefly described as bills accepted without value. The rights in respect of such bills in the hands of third parties are the same as in ordinary bills, and it is immaterial whether such holders when they took such bills knew them to be accommodation bills or not.

When a person accepts a bill for the accommodation of another, the person accommodated is held, in the absence of any express agreement, to engage that he will provide funds for the payment of the bill at maturity, and that if, owing to his omission to do so, the accommodation acceptor is compelled to pay the bill, he will indemnify him.

It is impossible to over-estimate the extent of the evil caused by the use of accommodation bills, and I consider it is the moral duty of every Chartered Accountant when he finds his clients resorting to such a practice, to use his best endeavours to persuade them to discontinue it. It frequently happens that accommodation bills are exchanged, *i.e.* A. draws upon B. and B. upon A. If one party fails then the other party has to pay both bills, and this is where there is so much danger in the practice. For you will generally find that when accommodation bills are passed between two persons, one at least is in an insolvent condition. A client of mine once told me he had exchanged accommodation bills with a friend who had failed. "But," said my client, "I am all right, because I did not use the bills which I received." He soon found out, however, that he was all wrong, as he had to pay the other bills without receiving any value for them.

I am not sure, but I believe bills accepted in payment of gambling debts may not be recovered at law by the drawer.

Bills and promissory notes are largely used by accountants for the payment of compositions. The advantages of this mode of payment are several:—

(1.) You are able to obtain an immediate discharge from the creditors, subject, of course, to the due payment of the bills.

(2.) All the creditors are placed upon an equal footing, so that one may not be able to sue the debtor before another.

(3.) Bills and promissory notes are a convenient means of obtaining sureties, for few compositions are accepted without one instalment at least being secured.

For the purposes of the payment of compositions I prefer promissory notes to bills of exchange, because they are simpler. Composition BILLS should be drawn by the sureties on the debtor, and specially endorsed by the sureties to the creditor. If composition notes are used they should be drawn in the following manner:—

(1.) Where there are two parties only to the note—
"*We jointly and severally promise, &c.*"
You may then, upon dishonour, sue either or both of the parties.

(2.) Where there are three or more parties, the form should be—
"*We jointly and severally and any two or more of us promise, &c.*"
In this case, upon dishonour, you may sue any one, any two, any three, &c., &c., of the parties, the advantages of which power cannot be over estimated.

If you are paying dividends or compositions, before doing so always see that the creditors give up or present for endorsement all the old bills they hold bearing the debtor's name, and for which his estate is liable. If you omit to do so you may have to pay the dividend twice over. For, in the absence of fraud, it may be taken for granted that the *holder* of the old bill is the party entitled to receive the composition or dividend. In payment of compositions, unless for cash, you are not entitled to demand the old bills to be given up. The creditors should hold them until the due payment of the composition bills, because, if such bills are not so paid, the creditors' rights in respect of the old bills revive.

On due payment of composition bills at maturity and on payment of final dividends, the old bills should be given up, *i.e.* if there be no one liable on them except the debtor. When creditors present the old bills, on payment of compositions *by bills or notes*, or on payment of dividends other than final ones, the old bills should be endorsed by the trustee, with a memorandum of the

payment of such composition or dividend. The old bills should also be so endorsed on payment of any composition or dividend, where any other person or persons are liable upon the bill except the debtor. Such endorsement is necessary because you cannot demand the old bills to be given up, as the creditor will want them for the purpose of claiming on the other parties liable. There are various ways of making the endorsements I have referred to and most accountants have a form of their own. I think the simplest form is as follows:—

Re John Smith,

Paid a { 1st dividend / composition / 2nd and final dividend } of 5s. in pound on this bill

William Jones,
Trustee, 30th June, 1883.

This form though very simple will I think be found sufficient for all practical purposes.

For the purposes of the Statute of Limitations, bills payable on demand date, not from the day of presentation, but from the date of the bills. This should be remembered, for it is not unusual for bills on demand to be kept for years without presentation, and if care be not taken to present within six years from the date of the bill, the maker may plead the statute.

Another peculiarity about bills of exchange is this. If you give your landlord an acceptance for his rent, he does not, pending the maturity of the bill, forego his right of distress. In some recent proceedings where I was receiver, the debtor had given his landlord an acceptance for the quarter's rent last accrued, but immediately on the proceedings becoming known to him, the landlord put in a distress and I could not prevent his doing so.

A third peculiarity is, that if the sheriff levy on a man's goods and under such levy takes possession of any bills of exchange or other securities for money which may be on the premises, the law allows him to sue on such bills or securities.

Many firms, especially jewellers and wholesale drapers, are almost daily called upon to renew their customer's bills, and for reasons best known to themselves, they do not wish their bankers to know of such renewals. Two or three courses are open to them. One is to send the money to the customer and ask him to advise the bill in the ordinary way. But this plan has its drawbacks, as the customer may retain the cash and not advise the bill, or he may go into liquidation before he have advised the bill. To provide against such a danger, the drawer may obtain gold or notes from his own bank, and advise the bill to be renewed through another bank or through some accommodating money lender. I cannot recommend the practice, for the first banker will soon get scent of the transaction, and suspicion will be aroused.

A lecture addressed to accountants on the subject of bills of exchange would be incomplete unless it included some observations as to the best means of treating such bills in books of account. I will, therefore, as briefly as I can refer to this matter.

For the purposes of bookkeeping it may be considered that the giving of a bill of exchange settles one contract and opens up another. Thus, if a man has given a bill for certain goods, he is considered to have paid for the goods, and he is only liable on the bill, although should the bill be not paid at maturity he may, if he hold the bill, sue upon it or for the goods as he thinks best.

A business man may accept bills drawn on him by firms from whom he buys, and draw bills on the customers to whom he sells. In treating such bills in his books the former are called "bills payable," and the latter "bills receivable." It is usual to keep a book called the bill-book, the one end containing rulings for bills payable and the other for bills receivable. This is the first book where bills should be recorded by the bookkeeper. The rulings for bills payable should reserve columns for the following particulars:—

Number of bill.
Date of acceptance.
Date of bill.
Name of drawer.
Name of acceptor.
Where payable, and to whom.
Time.
Due date.
Amount.
Remarks.

The entries for bills receivable are:—

Number of bill.
When received.
When dated.
From whom received.
On whom drawn.
By whom drawn.
Where payable.
Time.
Due date.
Amount.
How disposed of.
Remarks.

In some Scotch bill-books, under the column of due date, there are twelve subsidiary columns, one each for the twelve months of the year. Thus if a bill be due on the 17th January, the number 17 is placed in the January column. The only advantage of this method is, that by it you can tell at a glance what bills fall due in any particular month.

Now, assuming that the bills have been duly chronicled in the bill-book, how are they to be further treated? First, as regards bills payable. The correct method is to make a journal entry once every month, or oftener, as follows:—

Sundries. Dr.
to Bills Payable.

You will, all of you, I am sure, understand the meaning and *modus operandi* of this entry without further explanation. By its means, when the journal is posted, every person to whom a bill has been given is debited therewith, and bills payable account is credited with the total of such bills, and therefore stands as a creditor. When the bill is met, it is passed through the cash book in the same manner as an ordinary cheque. Thus the bank account is credited with the amount and bills payable debited. The balance of bills payable account will, therefore, if the account be properly posted up show the total amount of bills which have to be met.

In the case of bills receivable, the journal entry should be

Bills receivable Dr.
To sundries

The customer's accounts will, therefore, be credited, and bills receivable account debited. When the bills are paid away, to your bankers or otherwise, they should be passed through the cash book showing the amount as received *from bills receivable*. The entry on the Dr. side of the cash book is posted to the Cr. of bills receivable, and thus the balance of bills receivable account should be the total of bills in hand. It should always be the duty of the auditor to verify the correctness of the balances shown by bills receivable and bills payable accounts.

I have described to you what I believe to be the most correct way to treat bills in books of account. But where a journal is not kept (and I strongly advise you to always dispense with such a book if possible) other plans may be adopted. You may post the bills direct from the bill book to the personal accounts, and post the totals of the bill book to the private ledger accounts in the same manner as you post the totals of the day book. Or you may journalise the bills through the cash book, thus:—

To J. Smith	£100	By bills receivable	£100
or			
To bills payable	£150	By J. Jones	£150

The private ledger account will then work in a similar manner as if the bills were passed through the journal, only the bills in-

stead of appearing in the bill account in totals will be posted separately. Many accountants, however, object to this method, as they say it is not right to make a journal of the cash book.

Some firms pay all their bills away as soon as received, and simply enter them in the cash book as ordinary cheques, keeping particulars in the bill book for reference. Other firms will pay some of the bills into the bank for discount, and others (which are called casuals) for safe custody, or as security, but which are only to be credited to the account when actually collected by the bank.

If a customer's bill be returned it should be entered through the cash book, thus :—

To bank £150 1s. 6d. By S. Smith £150 1s. 6d.

The bank account thus gets credited with the amount, and the customer's account debited. If the bill be renewed the customer should be charged through the journal with

(1.) Cost of bill stamp.

(2.) Interest.

(3.) Bank commission.

The Bank commission should not be omitted because the bill has to pass through the bank account a second time, and it is only right that the customer should pay the banking expenses on the second bill which is taken for his convenience.

The Bills of Exchange Act, 1882, provides the same law for England, Scotland, and Ireland, with one single exception contained in section 57. That is that in Scotland where the drawee of a bill has in his hands funds available for the payment thereof, the bill operates as an assignment of the sum for which it is drawn in favour of the holder, from the time when the bill is presented to the drawee. In England and Ireland no such assignment is implied.

I have already explained to you that the holder of a bill has, upon its non-acceptance or non-payment at maturity, an immediate right of action against the drawer, and prior endorser or endorsers. Now, as regards proceedings for recovery on a bill of exchange. It is, as I have before mentioned, a great advantage to have a bill to sue upon inasmuch as the debt is one of liquidated amount, that is, of an amount that is ascertained and cannot be questioned. If the amount of the bill be under £50, you may sue in the County Court, *or* in the High Court of Justice. But if you proceed in the latter Court, and obtain judgment for an amount less than £50, you are only entitled to such costs, as you would have been entitled to had you proceeded in the County Court. All bills are presumed to have been given for valuable consideration, and an Act was passed in 1855 called the "Summary Procedure on Bills of Exchange Act" to prevent any one defending an action on a bill unless he had a good defence to the action on its merits. Under that act in the case of an action commenced on a bill or note within six months after it became due, by means of a writ, endorsed with a copy of the bill or note, and a certain particular notice, the plaintiff was entitled to judgment, unless the defendant within 12 days, on an affidavit that he had a defence obtained leave from a judge to defend the action. Although this act applied only to the superior Courts, its practice was soon afterwards adopted by the County Courts, and I believe it still applies there notwithstanding the act itself has been abolished.

In the case of an action on a bill in the High Court of Justice, the plaintiff may take out a summons calling upon the defendant to show to the satisfaction of the Court, that he have a good defence to the action, failing which the plaintiff may sign judgment.

You will thus see that there is a slight advantage, if your debt be over £10 and under £50 in proceeding in the County Court under the procedure of the Act of 1855. Thereby the defendant *must* prove within 12 days that he has a good defence, or he is not allowed to defend. In the High Court he is not obliged to prove this unless the plaintiff takes out a special summons calling upon him to do so.

If you sign a bill at a time when you are so drunk as not to know what you are doing, you are not liable, *i.e.* unless you ratify the contract when you are sober. Baron Alderson held that a signature on a bill by a person when totally drunk was "just the same as if he had written his name on the bill in his sleep in a state of somnambulism."

In conclusion, do not think I have exhausted the subject. There is much more to be learned on reference to the Act. But I think I have included in this lecture most of the information on bills of exchange that need be known by the "average" accountant. The lecture is somewhat disjointed, but this has been unavoidable.

BRISTOL ACCOUNTANTS' STUDENTS' ASSOCIATION.

The Second Ordinary Meeting of this Association was held at Albion Chambers, Bristol, on Thursday evening, the 25th October. The occasion was a meeting of mock creditors of Isaac Chizzle, who was supposed to have been carrying on business at St. Philip's, Bristol, as an engineer and beerhouse keeper.

Mr. Frank N. Tribe, A.C.A., who was elected chairman, said that it was with mingled feelings of sorrow and gratification that he assumed that position. Whilst he felt flattered by being chosen from out of the general body of creditors to preside at that meeting, he could but regret the unfortunate circumstance of Mr. Chizzle having filed his petition. From what he had heard he thought the present case a very bad one, and he urged upon creditors the desirability of having it thoroughly investigated.

Proofs to the extent of £3140 11s. 11d. were admitted by the meeting, whilst two, those of the debtor's sisters, Martha and Eliza Chizzle, were objected to, and were ultimately withdrawn.

On behalf of the debtor, who through ill health was unable to be present, Mr. E. N. Tribe (the receiver) read the statement of affairs, a summary of which is as follows :—

Bristol, 25th October, 1883.

Statement of the Affairs of Isaac Chizzle on the Eighth day of October, 1883.

Liabilities.	£	s.	d.	£	s.	d.	Assets.	£	s.	d.
Unsecured Creditors ...				2865	17	0	Stock-in-Trade at Red Cow Tavern & Flint Lane Estimated at ...	155	10	0
Creditors fully secured	900	0	0				Book Debts about £695 15s. 4d. Estimated to produce	375	13	8
Estimated value of Securities...	1150	0	0				Cash in hand	0	15	7
Surplus to contra	250	0	0				Bills of Exchange or other similar Securities, estimated to produce			
Creditors partly secured	1430	0	0				Tools at Flint Lane ...	7	10	0
Less estimated value of Securities	1101	18	7	328	1	5	Furniture, Fixtures & Fittings at the Red Cow Estimated to produce	100	0	0
Other Liabilities...				250	0	0	Property	22	0	0
Creditors for Rent, Rates, Taxes and Wages				41	18	8				
Liabilities on Bills discounted, £532 19s., of which it is expected will rank against the Estate for Dividend				94	7	0	Surplus from Securities in the hands of Creditors fully secured, see contra	250	0	0
				3580	4	1		911	9	3

After considerable discussion, in which the Chairman, Messrs. Henry Anstey, A.C.A., Clement Gardiner, A.C.A., Dearlove, Watson Grace, William Grimes, J. Herbert, H. Hobbs, Lyttleton, B. Michael, Pritchett, and J. H. Watling took part, resolutions to liquidate the estate by arrangement were agreed upon, appointing the receiver (Mr. E. N. Tribe), as trustee, with a committee of inspection. Mr. Fred. W. Baber, who had assumed the office of solicitor to the proceedings, was instructed to register the resolutions.

A cordial vote of thanks to the Chairman was passed upon the motion of Messrs Henry Anstey, A.C.A., and C. Gardiner, A.C.A.

CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

ARBITRATIONS AND AWARDS.

At a meeting of the above society held at St. Michael's Hall, on the 23rd Oct., Mr. Sneath, F.C.A. in the Chair, Mr. Joshua Slater, Barrister-at-Law, delivered the following lecture on Arbitrations and Awards:—

It will be impossible in the short time at our disposal to enter as fully as could be desired into the consideration of so important a subject as the one chosen for our lecture this evening. We will therefore content ourselves with glancing briefly at the principal points of the subject, and will endeavour to put clearly and concisely before you what an arbitration is, and what are the powers and duties of an arbitrator. Arbitration is the submission of a matter in dispute to the judgment of one, two, or more persons called arbitrators. An arbitrator is the person chosen by the consent of the parties to determine matters in dispute between them, whether they be matters of law or of fact. Any person may be chosen for the office, and the parties will be bound by the decision of such arbitrator, even though he is under age, or incapacitated for other duties by reason of his being an idiot or a lunatic. For, as Mr. Russell says in his work on this subject, every person is at liberty to choose whom he likes best for his judge, and he cannot afterwards object to the manifest deficiencies of those whom he has himself selected. The person chosen must *accept* the office before the appointment is considered to be complete. He should be a person totally indifferent about the matter to be decided. If he has a bias to either one side or the other it will be clear that he renders himself unfit to give that just and impartial decision, to obtain which is the object of his appointment. An arbitrator must also be above suspicion; that is, he must not take a bribe from either of the parties to the dispute, nor have such dealings with them, or either of them, as could be construed into a bribe. In illustration of this point there is an old case where the arbitrators took money for their charges without any account being delivered, and before they made their award. Lord Hardwicke, before whom the case came, thought this was a sufficient reason for setting aside the award; for if (said he) this were allowed it would be hard to distinguish where corruption began. An arbitrator, therefore, must be incorrupt as well as impartial. He must also endeavour to keep his mind unbiassed with regard to the parties to the dispute, for if he shows any prejudice in favour of or against either of them, the award may be set aside. In fact, when we sum up the various qualities necessary to make a complete arbitrator we can only arrive at one conclusion, viz. that the world would be a much easier place to live in if there were more arbitrators in it than there are.

When the arbitrator has accepted his position, his appointment is complete, and he can commence the duties of his office as soon as circumstances will allow. The instrument by which an arbitrator is appointed is called the submission. This submission may be verbal, in writing, or by deed. It is desirable to have it in one of the two latter forms, as it can then be made a rule or order of one or other of the courts. It then becomes a document of increased importance, and the proceedings under it are of a judicial character. This submission should contain the matters upon which the arbitrator is to decide and the time within which he is to give his decision; for as his authority commences from the time when he enters upon the duties of his office, he can give his decision on the day of his appointment if no time is mentioned in it for that purpose. By the C. L. Procedure Act, 1854, 17 & 18 Vict. c. 125, it is enacted in section 15 that any arbitrator acting under any document authorising a reference to arbitration shall give his award under his hand within three months after he shall have been appointed and shall have entered on the reference, or shall have been called upon to act by a notice in writing from any party, but that it shall be lawful for the parties to enlarge the time for making the award, and if no period be stated for such enlargement it shall be considered an enlargement for a month. As soon as the award has been made, the authority of the arbitrator is at an end: he cannot alter it in any particular, nor exercise any jurisdiction over it. If the award is from any cause set aside, the arbitrator's authority is not revived so as to enable him to make a fresh award. The authority, once executed, cannot be revived without a fresh appointment.

We have spoken of enlargement of time, and in connection with this branch of the subject we may say that if the award is not made within the time specified in the submission for that purpose, the arbitrator's authority is at an end. It is a matter of frequent occurrence that, owing to various causes, the award cannot be made within the specified time for such cases. The submission generally provides by a clause giving the arbitrator power to enlarge the time for making his award. This power he can exercise where authorised to do so by the submission, either with or without the consent of a judge or Court; and the more usual practice is to empower the arbitrator alone to enlarge the time. The object of inserting this clause is to prevent the expense as well as the trouble attending the recommencement of the proceedings, which would be the consequence of not giving his award at the time mentioned in the submission. If the mode of enlargement is not specified, the arbitrator can make use of any means adopted for the purpose. He may, if he chooses, enlarge the time verbally; and in one case, where the arbitrator made a verbal appointment with both the parties, and fixed for that purpose a day beyond the limit of the original agreement, that was held to be a sufficient enlargement, and the award made on that day was sustained as being made in due time. If the submission state the manner in which the enlargement is to be made, it must be strictly followed. We have said that the submission should be in writing, and it should specify distinctly the matters to be referred, and also the agreement of the parties to be bound by the award. This submission, when in writing, requires to be stamped with a sixpenny stamp, if the subject-matter in dispute is of more value than £5, and it should be executed by all the parties to it. When the submission is by deed it requires to be stamped with an ordinary deed stamp according to the value of the subject-matter of the dispute. A submission may also be made by bond. In that form of submission each of the parties enter into mutual bonds for the payment of certain penalties in case of their non-compliance with the award. A submission by bond requires an *ad valorem* stamp, whatever the amount. A submission should always be made a rule of Court, so as to give the Courts power to compel obedience to the award, for a case might, and in fact cases do arise, in which two persons verbally agree to refer their disputes to arbitration, and after the proceedings in the matter are over, and the arbitrator has made the award, one of the parties flatly refuses to obey it. In such a case if there is no document that can be made a rule of Court, the question arises what is to be done with this disobedient party? The only way out of the difficulty is to bring an action against him in the Courts, and by that means compel obedience to the judgment of the arbitrator. We now come to the parties to a reference, and as to this we may say that all persons who can contract may be parties to a reference. Lunatics or infants are not able to enter into a general contract or to bind themselves to a reference. A married woman, as a trader in the City of London, occupies a somewhat peculiar position, and can sue and be sued in her own name, can be made bankrupt, and is for all business purposes looked upon as a single woman. She can, therefore, so far as her business is concerned, be a party to a reference without the consent of her husband being required. So may a woman who has the misfortune to have a felon for a husband, that is so long as such husband is serving his term of imprisonment. A woman judicially separated from her husband may also be a party, and an agent has power to bind his principal by arbitration in any matter in which the agent has authority to act, but the submission must be made in the principal's name, otherwise he will not be bound by the award. Partners

have no implied authority to bind their co-partners, and for that purpose they must have special authority. Although a lunatic cannot be a party to an arbitration, his committee may on his behalf, the power to be a party being derived from the Lords Jnstices in Chancery, who have jurisdiction over lunatics conferred by sign manual from the Crown. Trustees may also refer matters in connection with their trust estates, and as the question of their personal liability in such a case has not yet been decided, it would be well to have a clause inserted in the submission to the effect that they incur no personal liability by an adverse award. Trustees of a bankrupt may submit any question arising out of the bankrupt's estate to arbitration, having first obtained the consent of the committee of inspection. Railway companies, joint stock companies, and corporations may also be parties to a reference under various Acts of Parliament in that case made and provided. All matters that can form the subject of a contract may be referred to arbitration, whether those matters appertain to property or the person. In all cases, whether of contract or arbitration, there is this one grand principle to be considered, viz. that the subject matter must be legal: fraud vitiates every contract, and every proceeding arising out of it; and neither the courts of law nor the chambers of the arbitrator must be made use of for purposes of fraud or illegality. Questions of account may also be referred under the powers conferred by statute on the court for that purpose; and the Common Law Procedure Act (17 & 18 Vict), c. 125, s. 3, directs how this is to be done. The various modes of submission to arbitration are:—By consent; by compulsory order under the Common Law Procedure Act; by order of the Court or a judge; under the Judicature Acts, to an official or special referee.

We have spoken of the submission by consent, and shown how it may be made, viz. either verbally, by writing, or by deed, and have endeavoured to show the necessity there is for its being made a rule of Court.

The second mode of submission is, by compulsory order of the Court or a judge; and under the Act a judge may order matters of account in any action tried before him to be referred to an arbitrator to be appointed by the parties, or to an officer of the Court. In the case of Ward *v.* Pilley, reported in 5 Q. B. Div., p. 427, it was decided that under the 57th section of the Judicature Acts, any judge who had power to refer accounts compulsorily to arbitration had also power to refer all the other issues in the action. A cause may also be referred by order of the Court, either before the trial, and either with, or without, a verdict being taken, as the parties may think proper. A judge's order may be obtained for that purpose if required before the trial, and the order should direct all proceedings to be stamped; but if no action is pending before the Courts, the consent of the parties has to be obtained to its being made a rule of Court.

The last mode of submission is under the Judicature Acts to an official or special referee, in connection with which it is only necessary to say that a referee, whether official or special, has no power to decide the case submitted to him, but can only examine into the matter and report to the judge the result of his investigations. The Acts also regulate the fees to be paid, the remuneration of the referees, and direct how the fees are to be collected. The terms of the submission can be altered by consent of the parties to it at any time before the arbitrator gives his award. When, however, the reference is by consent and does not come under any of the statutes mentioned, and is not made an order of Court, the Court has no jurisdiction to alter or set it aside. A submission to arbitration can be revoked by consent of the parties at any time before the award is made, but only in cases where it has not been made a rule of Court, an order of a judge, or an order in an action: in all these cases it can only be revoked by the Court or judge on satisfying him of the necessity for such a step. Notice of the revocation must be given to the arbitrator, or he will not be affected by it. The death of one of the parties is also a revocation, and so is the marriage of a woman who is one of the parties; but if any loss or damage was sustained by the opposite party in consequence of such marriage, they would be entitled to an action for damages. The misconduct of the arbitrator, such as taking a bribe or acting unfairly, would also be a revocation; and so also would the death of an arbitrator, but by the C. L. Procedure Act, 1854, the judge has power to appoint an arbitrator in place of one who dies. We will now proceed to consider who may be an arbitrator? and it will be scarcely necessary, after what we said at the commencement of the lecture, to repeat that an arbitrator ought to be a man of considerable human perfection, and far removed from the ordinary temptations of life, such as partiality, bias corruption, or fraud; such a man in fact as would be incapable of making use of trust funds for the purposes of self-gratification, or one who when called upon to give an account of his stewardship would clandestinely retire into that obscurity from which he should never have emerged. The authority of an arbitrator only commences with the commencement of his duties, and not from the date of his appointment; and after he has received notice of his appointment, and has commenced his duties, he is armed with all the powers of a judge, and must act as though he were both judge and jury. His powers are thus very great, but he must not use them regardless of the law, but is bound by it to the same extent as the judge would be in his own court. It is his duty to fix the time and place of meeting, regard being had to the convenience of the parties, and at such time and place the parties should attend before the arbitrator with their witnesses, and be ready with the evidence that is necessary to support their case. The witnesses must be served with a notice that their attendance will be required at the time and place fixed upon, and such notice must be signed by the arbitrator. He must also give both parties a reasonable opportunity of bringing all their evidence before him, and cannot close the proceedings because one of the parties to the arbitration delays bringing his evidence, neither can he give his award without due notice to the parties concerned. An arbitrator should confine his inquiries to the matters referred to him by the submission, and must not allow evidence to be given on any question not within the scope of his submission. He must only take evidence in the presence of the parties themselves, or of some one, *e.g.* a solicitor, attending on their behalf; he should also be present in person, and if he take evidence in any other way the Court will, on application, set aside the award. The arbitrator may exclude all the witnesses while one witness is giving his evidence, and should himself carefully examine every witness. The arbitrator is the judge as to the admissibility of the evidence tendered, but not as to whether such evidence is material to the case, and should, therefore, receive all the evidence properly tendered. Every arbitrator having power to hear, receive, and examine evidence, has also power to administer an oath to all such witnesses as are legally called before him. The Act enabling this is the 14th & 15th Vict., cap. 99, s. 16. The arbitrator should take all necessary notes, and should as far as possible follow the course of procedure at a trial. He should not receive private evidence from one of the parties, or if he does, should communicate it as early as possible to the other side. All the parties to the arbitration should be present when evidence is given, and if it comes to the knowledge of one party that the arbitrator has taken an undue advantage or acted in a manner calculated to injure his interests, he should at once revoke the submission. The arbitrator can call for all necessary books of account and documents relating to the matter before him, and the submission should contain a clause empowering him to do so when necessary. An official or special referee under the Judicature Acts has no power to call for the production of documents in a matter before him, and if he requires them he must take out a summons in the chambers of the judge to whom the action is attached. If one of the parties to a reference refuses without good cause to go on with the proceedings, or to bring forward his evidence, or declines to attend the proceedings with the intention of defeating the object of the arbitration, the arbitrator can proceed without him, and give his award in his absence. It is usual in such cases to give notice to the absenting party of his intention to proceed, and the notice

should be in precise language, about which there can be no mistake, or the award can be set aside.

It is a matter of frequent custom to appoint two or more arbitrators, one for each of the parties to the dispute; in all such cases an umpire is appointed to act as a final judge in case of any difference of opinion arising between the arbitrators. The advantage of this system is by no means obvious to the eye of common sense, for, in the first place, it is almost impossible to get two people to look at the same matter alike, much less to think alike upon it, and therefore it is very unusual to expect two arbitrators to agree upon the subject before them, and that such an agreement is almost an impossibility is evidenced by the fact that in all cases where two arbitrators are appointed, provision is made for an umpire to be chosen (p. 50 Act), so that the decision when given is after all only the decision of one man, and what advantage has been gained in such case by the increased expenditure of time and money is not altogether observable. Another disadvantage is that when two arbitrators are appointed, they frequently consider themselves as advocates of their respective clients, and not as judges acting impartially in the interests of both parties. How the umpire is to be appointed is laid down in the Lands Clauses Consolidation Acts, 1845, sec. 27. When an arbitrator has taken all the necessary evidence, examined all the witnesses, and generally performed his duties with regard to the matter before him, nothing further remains for him but to make his award. This award is an important document, and one that is treated with great respect and delicacy by the Courts, so that every care should be taken by the arbitrator to make it worthy of its ultimate character, as having the same effect as a judgment of the Court. The first consideration is that it should be made within the time specified in the submission. If the arbitrator is limited to a certain day—say the 25th March—that day is included, and if the time for making the award has been enlarged, it must be made within such enlarged time; but he has no power on his own authority to shorten the time within which such award shall be given. He cannot make an award after his power has been revoked by either of the parties with the consent of the Court; and when the submission limits the time for giving the award to say three months, such months are considered lunar, and not calendar months. There is no precise form of words necessary for making the award. All that is necessary is to make clear the fact that the arbitrator has fully and finally made up his mind as to what his decision is to be. It should not introduce anything foreign to the questions to be decided, but should follow the submission in every particular. The award should be in writing, for by sect. 15 of the C. L. P. Act, c. 125, it is provided that an arbitrator acting under any document or compulsory reference shall make his award under his hand, and a verbal award would only be valid under the Act if the submission were verbal. If there are more arbitrators than one, they should all sign the award in presence of each other, and a witness should attest the signatures. The award should be on paper, engrossed and properly stamped with an award stamp, according to the value of the property involved, and as provided by the 33 & 34 Vic. c. 97, which regulates the duty imposed on awards. It is usual to give the award duly stamped to the party in whose favour it is made, and an unstamped copy to the other. An unstamped award cannot be given in evidence in any Court, nor enforced by an application to the Court. If the arbitrator is a non-professional man (as is usually the case) he may have the assistance of a counsel in framing the award, and he will generally be allowed the assistance of a solicitor to sit with him during the proceedings. When an arbitrator has published his award, *i. e.*, when it has been executed with the formalities required by the submission, his authority in regard to the reference is at an end: he cannot rectify a mistake in his figures, nor change a name that he has wrongly inserted in the direction to pay costs. If after the time fixed for giving his award has passed he alters it, the original award will stand, and the alteration will have no effect whatever. The Common Law Procedure Act, 17 & 18 Vic. 125, provides for cases where a mistake is made by the arbitrator.

The award of the arbitrator must be made in such a way as to be a final decision on the subject referred to him for determination. Unless he is empowered to make several awards, as he sometimes is by the submission, he can only make one, and it must be a complete instrument and entire in itself, and made at one time, *i. e.*, an arbitrator cannot give his award upon one part of the subject to-day and to-morrow make a further addition by giving his award upon another part. But in the case of several arbitrators, they may meet and settle matters on different days, but their final award must be entire and complete. An arbitrator cannot delegate his authority to another nor any part of it, but must himself make a final and complete decision upon all matters referred to him, and take part personally in the proceedings from the commencement. An award, therefore, would be bad that directed that the parties or some of them should abide by the decision of a third person, and it would be bad as not being final, and also as being a delegation of the arbitrator's authority, whose duty it is to decide for himself. An award must also be certain in order to be effective and binding upon the parties, and it must be so formed that there can be no doubt on the mind of any reasonable person as to its meaning or the intention of the arbitrator in drawing it up, and uncertainty in a material part of the award will be fatal. Award should be just between the parties to it. Award must also be possible—also reasonable—consistent throughout, one part agreeing with another, so as to make a consistent document. It must also be legal and untainted by fraud, for if is is either illegal or fraudulent it will be set aside. If an award is bad in part from any cause, such as being against evidence or against law, or if the arbitrator gives his award on a point on which his decision is not required, it will be void so far as the bad part is concerned, that is, if the two parts can be separated: if not it is bad altogether. So that if an arbitrator awards costs and the submission gives him no power over costs that part of his award will be separated from the rest and treated as void. If an action is referred to arbitration and damages are claimed in such action, the award should state clearly what amount of damages are due to the party entitled to recover; and when a certain amount of damages are claimed in any action referred to him he cannot award a larger sum than is actually asked for. In any case where reference shall be made to arbitration the Court or a judge "shall have power at any time and from time to time to remit the matters referred or any or either of them to the re-consideration and re-determination of the said arbitrator, upon such terms as to costs and otherwise as the said Court shall think fit." So says the Common Law Procedure Act, s. 8. Before this Act was passed the Court had no power to refer back the award for the arbitrator's reconsideration without the consent of the parties, and consequently in all cases where such consent could not be obtained the award was set aside and the proceedings had to be commenced over again, thereby increasing very considerably the costs of this mode of settling disputes. This clause of the Act, therefore, worked a beneficial change in the procedure in arbitrations. If joint arbitrators have been appointed, and they have not duly executed the award in the presence of each other, the judge will refer back the award, Also in cases where the wrong Christian name of one of the parties has been inserted in the award, the award is usually referred back to the same arbitrator, and justly so, as he knows all the circumstances of the case, and has heard and examined all the witnesses, and also put himself into possession of all the facts of the case on which his judgment is desired. But if there is evidence before the Court of the corruption or misconduct of the arbitrator of such a character as to invalidate the award altogether, another arbitrator must be chosen by the parties, and the award will be remitted back to him. The award when delivered binds all the parties to it as to all matters contained in the submission, and the parties to it cannot again raise the matters adjudicated upon in any courts of law. Where an award orders payment of money by one person to another so as to give the creditor a right of action for its recovery, it creates a debt which can be proved in bankruptcy, and is a good petitioning creditor's debt. An award that is valid

has the same force as a judgment of a Court of Justice, and is conclusive evidence as between the parties to it as to all matters included in the submission.

As we have said, it is desirable to make the submission a rule of Court, as when this has been done the award can be dealt with by the Courts, and obedience to it can be compelled. This submission can be made a rule of Court by motion, and it is not necessary to give notice to the opposite party of the intention to make such motion. If the submission be lost, and it is desired to make it a rule of Court, it will be necessary to produce a verified copy, and the Court will accept it instead of the original document. When the submission has thus been made a rule of Court, it may be dealt with by the Court as circumstances may require; it can be referred back, as we have seen; it can be set aside; it can be enforced, and the parties refusing to perform their part of the award can be compelled to render obedience by the Courts. An award will be enforced by attachment, which will only be granted when the award has been made a rule of Court, and disobedience to an award in that case makes the party disobeying guilty of contempt of Court, and the party in contempt will be confined in prison until he comply with the award. There is another mode of dealing with the award, namely, setting it aside, and this can be done only when the submission has been made a rule of Court, that being, as we have frequently observed, a necessary preliminary to any interference by the Courts. The award will be set aside by the Court or a judge, who must have evidence of the necessity for such a proceeding. The motion to set it aside must be made in open Court, and not before a judge in chambers. The Court must also be the one in which the submission is made a rule. The award can be set aside on various grounds. It will be so dealt with, where it is defective or uncertain, where it is not final, where it is bad, also where the arbitrator has made a mistake as to his jurisdiction; also where corruption or fraud is shown on the part of the arbitrator, where the proceedings have been conducted in an irregular manner, and where one party has obtained the decision of the arbitrator by a concealment or misrepresentation of facts. These are the main features of the law of arbitrations and awards.

The subject is one of increasing—I may say daily increasing—importance. In the present state of legal business, with the courts of law blocked with cases that cannot possibly be decided within a reasonable time, arbitration is recommending itself more and more to the commercial community, as being the readiest way of settling those disputes which continually arise, and which cannot be prevented from arising, in connection with mercantile contracts. One of the advantages of arbitration would be a great saving of time, and time is money to the merchant of the nineteenth century.

At the conclusion of the lecture, the following questions were (with others) put to, and answered by, the lecturer; and as they are likely to be of interest to our readers, we here insert them with the answers:—Has an arbitrator a lien for his charges on the documents produced during the reference?—Answer: The arbitrator has a lien for his reasonable costs on the award and submission, but not on the documents put in evidence before him by the parties. Has an arbitrator to give any reasons for his award?—Answer: An arbitrator can decline to state the grounds on which he made his award. If the submission is revoked before the award is given, what remedy has the arbitrator for his charges?—Answer: In all cases where the submission is revoked before the award is given the arbitrator has his remedy against the party revoking, by an action for his charges, which could be recovered as damages. If good grounds for the revocation (such as misconduct) could be shown, the arbitrator would have no remedy. If the submission were verbal, and so could not be made a rule of court, and one of the parties refused to obey the award, what remedy would the other party have to compel him? Answer: A submission to arbitration is a contract between two parties, and if the one party refuses to fulfil his part of it he is liable to an action for breach of contract, which would have to come before the courts in the ordinary way. Would the death of either of the parties revoke the proceedings? Answer: The death of either of the parties to a submission would be a revocation of the arbitrator's authority.

The usual vote of thanks to the lecturer brought the proceedings to a close.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

BUILDING SOCIETIES.

By T. B. Brooks, F.S.A.

The twelfth ordinary meeting of the Manchester Accountants' Students' Society, was held in the Old Town Hall, Manchester, on Monday evening the 3rd of December, 1883, at half-past six o'clock.

Adam Murray, Esq., F.C.A., in the chair; and there were about 36 members present.

The minutes of the last meeting, held 19th November, were read by the hon. secretary, Mr. A. E. Piggott, and declared correctly recorded. The President, in rising to introduce the lecturer, said that at this time the subject of building societies was especially attracting attention, and would doubtless prove interesting; and after making a few general remarks, called upon Mr. T. B. Brooks, F.C.A., to deliver his lecture entitled,

"BUILDING SOCIETIES."

The subject of Building Societies is one which has hitherto received but scant notice on the part of those following the practice of accountancy, but it is now assuming such an aspect of importance in the light of recent events in the building society world, that the necessity for a fuller acquaintance with the various Acts of Parliament regulating such associations, and of the law relating thereto, is gradually becoming more apparent.

Had the special purpose which these societies were intended to serve, viz., to assist the industrious classes principally in acquiring small leasehold or freehold property been observed, we should not now probably have been called upon to discuss the subject in its present aspect. Unfortunately for those whose interests are bound up in building societies, a course of dealing has been pursued entirely foreign to what prudence would have dictated, and the result has been that they have become, in only too many instances, mere mediums for advancing money on securities of the most speculative character. This has to a large extent been brought about by the influence of a class of men popularly known as "property jobbers," who by obtaining almost entire control of the affairs of the societies in their capacity as trustees or directors, have been enabled to have matters pretty much their own way, and so long as investors have been receiving their specified rate of interest, all has seemed well. One cannot help thinking that if those in whom the elective power was vested had exercised a little more discrimination in the selection of managing officers, and had taken care to ascertain something more as to their fitness to undertake the important duties devolving upon them, the present state of things might have been minimised considerably. Another cause which has, I think, contributed to bring about a want of confidence, has been the almost unlimited amount of money which these societies have been able to obtain under borrowing powers. Very rarely has it been the practice to refuse any proffered loans, on the ground that there was no immediate outlet for employing it profitably, and the necessity for earning the interest, which would have to be paid being at once apparent, there is only too much reason to believe that it has encouraged a tendency to advances on securities of a risky nature, which in the absence of this necessity, would on principles of prudence, have been declined. So much then for some of the causes of the present crisis.

Before proceeding further, I ought perhaps to say that it is not my intention to explain the principles on which these associations are conducted, but more particularly to endeavour, as far as possible, to shew to what extent the law has been settled in relation to their termination and dissolution. Their constitution and powers are so well defined in the various works bearing

on the subject that it is almost unnecessary for me to treat them from such a point of view, and indeed the limits of my paper would scarcely permit me doing so. I propose, therefore, to confine myself in the main to a consideration of some of the more important questions which will be met with in the course of proceedings for the winding-up of societies established on the permanent principle, and with this object it will be needful for me to glance for a few moments at the origin of these societies, and then review briefly the legislation which has taken place from time to time for their regulation.

The precise period when building societies first came into existence is a matter of speculation; but it has been claimed for them that they date back many centuries. Whether this be so or not, it is certain that at whatever period they originated, their constitution must have been of a very crude form. Until the commencement of the present century, there do not seem to be any authentic records of the principles on which they were conducted, and it was not until the year 1809 that we find any reliable proof of their existence. The Earl of Selkirk is said to be usually credited with having founded the first society in 1815; but from the report of a case, *Pratt* v. *Hutchinson* (given in Eart's Law Reports), which is recorded as having been decided in 1812, it would appear that the Earl has received credit to which he is scarcely entitled. The Greenwich Union Building Society was founded by a deed of rules and regulations dated 7th January, 1809, with the object of raising, by monthly subscriptions, a fund or capital to be laid out in building houses. About that time questions seem to have been raised as to the legality of associations of this kind, but the decision in the case referred to would appear to have disposed of any doubt on that point in their favour.

Prior to 1836, no specific enactments had taken place for the regulation of building societies, and they would probably be looked upon then as something akin to joint stock companies. In consequence, however, of a proposal being mooted in or about 1835, to impose a duty on all shares in joint stock companies which might change hands, the building societies in Manchester and Liverpool became somewhat alarmed, the outcome of their action being that ultimately a special Act was obtained for their regulation and protection, which, in effect, gave them an existence entirely independent from that of joint stock companies. The Act referred to is dated 14th July, 1836, being passed in the 6 and 7 William IV., and is entitled "An Act for the Regulation of Benefit Building Societies."

Amongst other things it provided that the bonus or interest to be charged to any member of a society in respect of any share or shares should not be uxurious; that the benefits of the Act were to extend to all societies before 1836; that no rules or transfer of shares should be liable to stamp duty; and that no society was to invest its funds in savings banks or with the National Debt Commissioners.

There is not any provision in this Act giving societies authority to borrow money from persons other than members and yet there are societies in existence under that Act which have inserted such a power in their rules; and, more extraordinary still, their rules have been certified to be in accordance with that Act. It is curious, also, that there is an entire absence of any effectual provision for termination and dissolution. As to this, I shall have occasion to refer more fully in another portion of my paper.

Nothwithstanding the ambiguity in the terms of that Act and the absence of provision for winding-up, no amendment of the law took place for a period of close upon forty years, and it was not until the year 1874 that any successful effort was made to remedy the existing state of things. Efforts had however previously been made to obtain some measure of relief from the uncertainty surrounding the law, and in the year referred to a new Act was passed entitled "An Act to consolidate and amend the law relating to building societies," which came into operation as from the 2nd November, 1874. This Act repealed the Act of 1836 so far as any future Societies were concerned, but did not affect existing societies except to a very limited extent unless they became incorporated under the new Act, and consequently those societies which did not obtain a certificate of incorporation continue to be governed by the old Act.

Perhaps it may be well to point out here some of the more important differences between the two Acts. Under the Act of 1836 societies are under the jurisdiction of the High Court of Chancery, but under the new Act it is provided that they shall be wound-up in the County Court of the district in which the chief offices of the society are situated. Formerly there was not any expressed power to borrow from outside persons, no limitation of liability of members either advanced or unadvanced; but under the new Act all these matters are dealt with and defined. Some doubt having arisen as to the interpretation of section 8 of the new Act which reads as follows: "Every society the rules of which have been certified under "the said repealed Act shall be deemed to be a society under "this Act, and *may* obtain a certificate of incorporation under "this Act, and thereupon its rules shall, so far as the same are "not contrary to any express provisions of this Act, continue "in force until altered or rescinded as hereinafter mentioned." From which it appeared that *all* societies were entitled to the benefit of the new Act whether incorporated or not, and that registration was optional. To correct this a further Act was passed on the 22nd April, 1875, repealing the above section and substituting the following clause, viz. section 2. "From "and after the passing of this Act, every society, the rules of "which have been certified under the said Act of the session "of the sixth and seventh years of the reign of his late Majesty "King William the Fourth, chapter 32, entitled an Act "for the regulation of benefit building societies may obtain a "certificate of incorporation under the Building Societies Act, "1874, and thereupon shall be deemed to be a society under "that Act &c. The effect of this repealing Act was that societies could only have the benefits of the Act of 1874 if they became registered. It was however provided that if anything had been "done or suffered" under the repealed sections, such "doing or suffering" should not be affected by such repeal. In other words if any person or persons had lent money or done any other act on the faith of the Act of 1874 applying to societies under the old Act although not incorporated, he or they were not to be prejudiced in any way, and would have the benefit of section 8, as if it actually did apply to existing societies. With regard to this point I shall have occasion to remark later on. Further legislation took place, but of an unimportant character so far as we are concerned.

Having now as briefly as possible reviewed the principal enactments for the regulation of building societies, I come now to a consideration of the termination of these societies and of the questions arising thereout.

As I previously observed, there is no effectual provision for winding-up societies under the Act of 1836, but it seems to be well-established that they may be wound-up by the Court of Chancery upon the lines of procedure for winding-up public companies.

As to societies under the Act of 1874, the mode of proceeding is defined, for section 32 provides under what circumstances a society may terminate or be dissolved, and these are determined to be as follows:—

1. Upon the happening of any event declared by its rules to be the termination of the society.
2. By dissolution in manner prescribed by its rules.
3. By dissolution with the consent of three-fourths of the members, holding not less than two-thirds of the number of shares in the society.
4. By winding-up, either voluntarily under the supervision of the Court or by the Court, if the Court shall so order on the petition of any member authorised by three-fourths of the members present at a general meeting of the society specially called for the purpose to present the same on behalf of the society, or on the petition of any judgment creditor for not less than £50, but not otherwise.

Notice must be given to the registrar of building societies of

the commencement and termination of every dissolution or winding-up.

Assuming then for the purposes of our discussion that we have now reached that stage when winding-up proceedings have commenced, and we are called upon to deal with the adjustment of the rights of all parties claiming to be creditors, our first duty will be to carefully peruse the rules so as to ascertain of what classes of persons it is constituted; whether of loanholders and members, or only members both advanced and unadvanced.

Now, in connection with this part of the proceedings for termination, it will be found difficult to decide what is the order in which the various classes of claims are to be placed; indeed, it will very probably be needful to have recourse to the opinion of counsel to guide one as to the rights of parties. Until recently there was very little settled law to rely upon for guidance, and the result has been that numerous test actions have been taken before the Courts, and although many decisions have been delivered from time to time, it is not by any means certain that they will be allowed to remain unquestioned, the tendency being to carry every case to the highest possible tribunal, the House of Lords, so as to obtain a final and conclusive decision.

As many of the points which we may be called upon to deal with have now been before the Courts, I will endeavour to indicate the effect of the decisions which have been given.

One of the first questions, but by no means the least important, which will probably have to be dealt with, will be the legality of the loans. In the case of a society under the Act of 1836 having borrowed money under a power in its rules to that effect (although as I have previously stated, the statute does not expressly authorise such privileges), very much will depend as to whether it was taken under a limited or unlimited rule. Prior to the Act of 1874 the right of a society to hold and use borrowed capital was the cause of much discussion in the Courts. Borrowing to a *limited* extent would appear to have been considered within the powers of a society, apparently on the ground that it was not repugnant to the spirit of the Act, or opposed to principles of commercial prudence. The Court of Appeal in Chancery, in a case *Laing* v. *Reed* (a case which has often been quoted), decided that a rule which contemplated borrowing to a limited extent was valid. Whether this would apply to any other limit than that authorised by the Act of 1874, viz. two-thirds, seems to me a little doubtful. With regard, however, to borrowing to an unlimited extent, there have been several decisions in which it has been held not to be legal, and that a person who had lent money under a rule of that character was not entitled to recover from the society; and such a person would not be entitled to a winding-up order. In a recent case which was tried before Vice-Chancellor Bristowe in the Chancery of the Palatine of Lancaster, he held, that a society having an unlimited power to borrow in their rules, was not liable to repay money so advanced, and those who were in this unfortunate position, therefore, instead of coming, as they thought, first in priority, would come last, only participating in any residue there might be after payment of costs and legal claims. There was one point raised in this case which I think had never previously been raised and it was this; a portion of the loans to the society were made between the 2nd November, 1874 (the date when the Building Societies Act, 1874 came into force) and the 22nd April, 1875, when section 8 of that Act was repealed. It was contended that as section 2 of the Repealing Act provided, that anything done upon the faith of section 8 of the Act of 1874, should not be prejudiced by the repeal of it, any loans between the above dates would come under the clause as to "doing or suffering," and that therefore such loans must be treated as valid, and binding upon the society. The Vice-Chancellor however, held, that as the security, (Promissory Notes) given for such loans, had not had endorsed on them the 14th and 15th section of the Act of 1874 (as provided by sub. sec. 5 of section 15 of that Act) they were not entitled to the benefit so claimed, and they must stand in the position which he had assigned to the other loans. The judgment was appealed against, however, and the matter came before the Court of Appeal. The late Master of the Rolls upheld the decision of the Vice-Chancellor, as to the loans before and after the dates mentioned, but reversed it so far as the other loans between 2nd November, 1874, and 22nd April, 1875, were concerned, holding that they were valid, and must rank as outside creditors. These are technically termed "Gap loans." How far borrowing will be legalised by a decision of the House of Lords, has yet to be seen.

Coming now to the right to borrow under the 1874 Act, we find many directions as to the mode in which this may be exercised. Although on the surface there does not appear to be any difficulty in arriving at a conclusion as to the ascertainment of the borrowing power, yet when it is attempted to put the provisions into practice, all kinds of difficulties present themselves and these are not lessened, by the fact that no decision has yet been given by the Courts as to the interpretation to be placed upon those sections of the Act relating thereto.

Sub-section 2 of Section 15 reads as follows:—

> "In a permanent society, the total amount so received on "deposit or loan, and not repaid by the society, shall "not at any time exceed *two-thirds of the amount for the* "*time being secured to the society* by mortgages from its "members."

Opinions differ as to the true interpretation to be placed upon this section. Now, before a society can borrow, it is obvious that it must have a basis. How is this to be arrived at? If we take the literal construction of the section, we should have to take the whole amount of future instalments (for that is what such a reading would mean); as well as any fines or other sums payable under the mortgage. The result of such a computation of the basis on which to borrow would be to create a power to borrow to a larger extent than had actually been lent on mortgage. To show the fallacy of this view, let us take the advance of £100 on mortgage, to be repaid in say 15 years. Under the rules and tables of some societies, the amount to be repaid would be about £160, two-thirds of which is about £107. This appears to be conclusive that such an interpretation cannot be the true one. The common sense view seems to be to construe the section as meaning balance of *principal* for the time being secured to the society. How far the Court would support such a view it is not for me to say, but assuming it to be the correct basis on which to calculate the borrowing power, we have not by any means overcome our difficulty. Amongst the many points which will require to be solved before any reliable account could be taken to distinguish between legal loans and loans outside the borrowing powers, is whether an overdraft from bankers is to be considered as an exercise of the borrowing power. Then there is the further question, whether if a person lent say £1,000 to a society when it had an unexhausted power of £500, would the loan be bad in part or in whole? There are also many other equally knotty points which would require to be taken into account, but I think sufficient has been said to convince you that if unfortunately it became needful to investigate the borrowing powers of a society in winding-up, the result might be that nearly the whole of the assets would be spent in litigation to ascertain and trace the legal claims. Where societies have gone into liquidation and their borrowing powers have admittedly been exceeded, every effort has been made by those concerned to bring about some scheme of arrangement by which such a necessity could be avoided and the enormous costs which such a step would involve saved.

The right of a society to deposit deeds as security for money lent, is another very important feature in building society law, and one which has given rise to some very interesting decisions. Until very recently there had not been any case which could be relied upon as establishing the law on this point. A case which has often been referred to, viz. Wilson's, was decided many years ago by Vice-Chancellor Bacon, but his judgment was not considered a strong one because it appeared to have left the litigant parties pretty much in the same position which

they occupied previously. The issue there raised was whether a person who had had deeds deposited with him by the trustees of a society to secure a loan which was *ultra vires*, was entitled to retain such security. The Vice-Chancellor held that although the consideration for such deposit was illegal, he must refuse to compel the *depositee* to deliver up the deeds until his money was repaid, but at the same time he did give the *depositee* more than a passive right to the deeds, he had not any power to sell and recoup himself in that way. It could not be expected that such a decision could long remain undisturbed, and in a recent winding-up of a society under the old Act having an unlimited power of borrowing, it was found that many of the large loanholders had had deeds deposited with them as collateral security for their loans. The contention was raised by the liquidator that the consideration for these deposits being an illegal loan, the holders were not entitled either legally or equitably to any lien. Upon the test cases which were selected to raise this issue, eventually reaching the Court of Appeal, it was held that the loans being *ultra vires*, the deeds must be given up as there had not been valid consideration given for them. An individual therefore who has lent money to a society without a legal power to borrow and is a holder of deeds must give them up and be left without any right to prove as a creditor. If, however, he could earmark his loan and show that it had been specifically appropriated to the payment of legal debts of the society, or to a particular mortgage, which formed part of the residium of assets, he would then be entitled to take out such security from the residium. Although theoretically this seems possible, yet in practice it is almost impossible, and this was so far recognised in the case of which I am now speaking, that no attempt was made with a view to tracing. In keeping an account of their cash transactions, the usual custom in these societies is to pay the whole of the receipts into the bank, and to make all payments by cheque; and this being so it seems to me that the funds become so merged in the general account as to entirely lose their identity for the purpose of tracing. With regard to the validity of a deposit of deeds to secure a loan to a society incorporated under the Act of 1874, I am not aware whether any decision has ever been given raising such an issue, but I think it may reasonably be inferred that if the consideration was not open to suspicion on the ground of over-borrowing, and if their had been a special bargain for deeds, the deposit would hold good.

Whilst upon this subject of security, I must not omit to refer to the dealings of bankers, although the space at my disposal will allow of but very few remarks. Probably the most important action affecting the rights of bankers in connection with building societies is the case of the *Blackburn Benefit Building Society* v. *Cunliffes, Brooks, and Co.*, which has in its various stages been reported in the *Law Journals*. Originally the bankers claimed to have a lien upon deeds in their possession to the extent of the amount owing to them on their overdraft; but the society being one which had not any power to borrow (either limited or otherwise), the liquidator contended that the bank had no claim whatever to retain the deeds; and and on the matter coming before V. C. Bristowe, he confirmed the latter view. The matter was then carried to the Court of Appeal, and the Lord Chancellor delivered judgment, of which I will give you the substance: "that although he agreed with "the V. C. in the principles on which he had proceeded, he "must reverse the order against the bank made on the footing "that there was no evidence to show that any specific accounts "of the money advanced to the society had been applied in "payment of debts and liabilities for which they (the society) "were properly answerable. The bankers were on equitable "principles entitled to claim. An enquiry must be directed "to ascertain those facts, the appellants not to be allowed any "money advanced to the society since it last ceased to have a "balance standing to its credit at the bank. So far as the "money went to paying the legal debts of the society, the claim "must be allowed; but the burden was on them (the bankers) "of showing what if any of the money advanced by them had "been applied in payment of legal debts." Generally the result of the judgment was, as you will perceive, to give the bankers the opportunity of tracing their money. The questions between the society and the bank being still sub-judice, it is perhaps not desirable that I should make further reference to them.

The liability of members, both advanced and unadvanced, is another question in regard to which there is a considerable amount of uncertainty. Although, as I have said before, regard must be had to the tenor of the rules, it seems to be a settled principle of law, that so far as societies not incorporated are concerned, the liability of both classes of members is unlimited. Now the liability as thus broadly stated does not at first sight appear to present or suggest any complication, but I venture to think, however, that when it is attempted to work out this liability for purposes of contribution, many difficulties will arise. Suppose for the purpose of illustration we are called upon to deal with the affairs of a society having a large amount of legal claims upon it, and that the assets are insufficient to pay these claims and the costs of winding-up. One of the first steps it would be needful to take would be the settlement of a list of contributories. With a view to ascertaining the liability of each member, it would be necessary to show the number of shares held by every member, and the date of commencement of membership. Now I believe I am correct in stating that a member would not be liable for any debts contracted prior to his becoming a member, and I think it follows, therefore, that before it can be seen to what extent he must be called upon to contribute, an investigation would have to be made to ascertain what debts (if any) contracted after his joining the society were still unsatisfied. It will at once be seen that this would involve an enormous amount of labour, and would mean practically a separate account being taken for every member, so as to show the debts for which each member was liable. Suppose then we are now in the position of being able to show what each member is liable for in the way of debts, how is this liability to be worked out; because it must not be forgotten that every member has, in all probability, joined the society at a different date to the others; that the number of shares held by each member will differ from every other member, and the amount of debts for which he is responsible will also be different. So far as I can gather, there does not appear to be any record of a list of contributories of this character ever having been settled, and it may be that the occasion will never arise. In the comparatively few societies now existing, the assets may prove sufficient to meet all *legal* claims without recourse to a call upon contributories. I think this is likely to be so for this reason. Where societies (not incorporated) have an unlimited power to borrow (and probably this is so in the majority of cases), the *legal* claims would be comparatively small, because the loans would be *ultra vires*. Whether it would be compulsory to settle a list of contributories to adjust the rights of members *inter se* is another question, and one which is uncertain. Assuming, however, that there was a sufficiency of assets to meet all claims, and leave a surplus for division amongst members, it would then have to be determined in what priority (if any), they should participate.

On this point it has been held on the authority of the Court of Appeal in *re The Blackburn Benefit Building Society* that those members who had given notice to withdraw prior to winding-up would be entitled to be paid in priority of notice before those who had not given notice. Many of you may have seen a report in the Manchester papers recently that the Vice-Chancellor of the Palatine Court had given the liquidators of the above society permission to pay a dividend to those members of the society who had given notice, but that an appeal had been lodged to the House of Lords against the decision in favour of the first-mentioned class, and that pending the result of this appeal the proposed dividend must be withheld.

In some societies there are in addition to the usual advanced and unadvanced members, a third class, styled preference or deposit members, who unlike the unadvanced members receive

their interest yearly or half-yearly as the case may be. Now although the Act of 1836 does not expressly authorise the creation of this kind of member, the Court of Appeal have decided in *re The Guardian Building Society* that a rule authorising the issue of such a class of shares is not repugnant to the provisions of the Act, and consequently in the society referred, they are entitled to rank in priority of payment to those of unadvanced members. I may mention, however, that this decision has also been appealed against to the House of Lords.

It is satisfactory to say that under the Act of 1874, the liability of Members is much more clearly defined and settled than under the previous Act. Section 14 provides that the liability of any member in respect of any share on which no advance has been made, shall be limited to the amount actually paid or in arrear on such share, which means in effect that an investing or unadvanced member is only liable for that which has accrued due between the date of the commencement of his share and the date of commencement of termination proceedings. For example, if a person takes up a share on the 1st January, 1878, and the society commences to wind-up on the 31st December, 1882, the amount of subscriptions accrued due would be 60 monthly instalments (or otherwise according to the rules) and he could be called upon to pay such amount, subject however, to deduction in respect of any sum which might be standing to his credit on such share. This liability is put in another way by the Lord Chancellor in his judgment on a Scotch Appeal, *Brownlie* v. *Russell* (L. T. Rep. 8 and 9, 83). After quoting the part of the section referred to, he says:— "In favour therefore of the unadvanced member the statute "reduces the liability to a lower amount than the full £25 "(that was the nominal value of the share); he is only to be "liable, which I think means to creditors or anybody else, for "that which is actually in arrear at the time when the liability "is to be enforced in addition to what he has actually paid."

The appeal I refer to did not turn upon the liability of an unadvanced member, but on that of an *advanced* member who had borrowed £700 from a society which had not in its rules any express power to make a levy upon members. The liquidators had, however, sought to make the borrower liable to pay the full £700 before he could redeem, although he had at the date of the winding-up already paid about £400 on account of instalments. The House of Lords unanimously held that as the rules did not contain one single word as to levies, the respondent was entitled to withdraw, notwithstanding the liquidation upon payment of the *balance* due on the advance made to him. One argument which was put forward on this appeal deserves to be mentioned, and it was this: that as the rules of the society in question provides that the borrowing members were to participate in profits if any, it followed that they were liable to bear the losses. Lord Bramwell very effectively disposed of this argument, in regard to which he said:— "There is not one word in the rules about losses being borne "either by the advanced or unadvanced members; and the "only reason that can be given why the advanced members or "anybody else should bear the losses, is that they were to have "profits if there were any. So they will, undoubtedly; but it "does not follow from that they are to bear losses. It might "have been a reasonable stipulation to put in if they had "thought of it, but either they did not think of it, or if they "did think of it, they did not consider that it was reasonable "to put it in; and we cannot put it in upon mere speculation, "that if they had thought of it they would have put it in."

Upon the terms of this judgment I think it follows beyond a doubt that where the rules of any society contain provision for levies on advanced members, the liability on their part would be practically unlimited unless the levies were limited in extent.

These, gentlemen, are some of the most important questions affecting building societies, and although I have endeavoured to the best of my ability to explain them as clearly as possible, I am conscious that I have but feebly dealt with the subject; the more so that I have omitted to make any reference to such matters as right of set-off, and many others, which it would be almost impossible to include in the compass of a paper such as I have read to you.

At its conclusion Mr. C. R. Trevor, F.C.A., rose to propose a vote of thanks to Mr. T. B. Brooks for what he styled "A lucid paper on a complex subject" and supplemented some of the information given by the lecturer, especially in regard to the case of *Cunliffes Brooks and Co.* v. *The Blackburn Building Society*. Mr. A. Wilde, A,C.A,, in rising to second the vote of thanks, also complimented the lecturer, Mr. Brooks on the able way in which he had treated the subject, and in the course of his remarks suggested a codification of the law relating to Building Societies.

The President put the motion, which was carried with acclamation. Other speakers then made remarks. viz.—

Mr. Walkden, Mr. Murray, Mr. Harris, Mr. Abbot, Mr. Kerr, Mr. Sutton and Mr. Lunt. Mr. Brooks replied, and after a vote of thanks to the chairman, the proceedings terminated.

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THE

Accountants' Students' Journal.

A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

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NOTICE.

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THE

Accountants' Students' Journal.

FEBRUARY 1, 1884.

EXAMINATIONS HELD BY THE INSTITUTE OF CHARTERED ACCOUNTANTS.

IN another column is printed a list, in order of merit, of the successful candidates at the examinations held in December, 1883, and we now propose to compare the results of that examination with the two previously held by the Institute. The following table gives the number of candidates, successful, or otherwise, at these examinations :—

Examination held.	Peliminary.		Intermed.		Final.		Eqv to Final		Total.	
	Suc.	Unsuces.	Suc	Unsuces.	Suc	Unsuces.	Suc	Unsuces.	Suc	Unsuces.
Dec. 1882	10	9	—	—	15	5	3	2	28	16
June, 1883....	24	17	10	2	23	6	1	1	58	26
Dec., 1883....	20	95	22	1	18	16	5	1	65	27
Totals	54	35	32	3	56	27	9	4	51	69

From these figures it will be seen that the results of the examination held in December 1883, show an improvement on that held in June, 1883 ; that improvement being particularly noticeable in the Preliminary, Intermediate and Equivalent to Final : the only column showing a retrogression, being the Final, which may perhaps be attributed to the fact of the papers being of a severer nature, or the examiners requiring a higher standard of excellence. The percentage of successful, as compared with unsuccessful, candidates at the examination in question, shows an improvement on the last examination, of nearly 8 per cent. and we think both candidates and examiners are to be congratulated on the result. We think it would be a great improvement if in publishing future result lists, the Institute were to state the highest possible number of marks attainable, and the number actually obtained by each candidate.

Those candidates who have passed their final examination, are now in a position to commence practising in a profession rapidly attaining an importance in the commercial world which must increase and require the utmost watchfulness and attention on their part to keep pace with. To the large number who have passed the Intermediate, we counsel steadiness and perseverance, to enable them speedily to pass the Final, and become fully qualified. While those who have passed the Preliminary, should be encouraged by their success in the first step to continue in the same path till they reach the goal of their ambition. Those who have failed this time, we counsel not to be disheartened, but to try again. The harder a thing is to obtain, the greater the merit when perseverence overcomes all obstacles. Perhaps a too easy success would lead to overweening confidence which might be sharply checked at a later period when recovery would be much more difficult.

We wish to call the attention of our readers, who have not already joined any of the various Accountants' Students' Societies to the great assistance they are to all beginners. In addition to affording the means of interchange of ideas and information, the libraries, which they are gradually

forming, enable Students to have the use of books that would otherwise be unavailable except at a large cost to themselves; while the mock meetings of creditors, &c., they hold, are useful in more ways than one—firstly, those present are able to see the form of procedure practically carried out; secondly, having the opportunity of speaking, they get that confidence in themselves which is so necessary to anyone having to address a meeting of strangers, and, commencing among comparative friends, they do not feel so nervous as they would if among total strangers; thirdly, if attentive to the way the proceedings are carried out, they must "pick up wrinkles" as to the most advisable manner of dealing with, say a hostile creditor or an injudiciously friendly friend. We regret that we have been unable to give in these columns an account of a mock shareholders meeting held by the London Accountants' Students' Society, in November last, and furnished to us through the courtesy of Mr. Ellerman, the Chairman on that occasion; we had the account set up to appear in our December number, but other important matter crowded it out, and when we wanted it for January we found the type had been distributed, and it was too late to have it re-set.

We consider that meetings at which members are invited to speak in turn, are as useful in their way as the debating societies at the Universities, in forming a man's style, and giving him self confidence for the real arguments and debates in which he will have to take his part in after life. We think these Societies might still further increase the range of their usefulness by arranging with coaches of acknowledged excellence to give instruction to members, either in classes or privately.

We give in the present number a portion of the questions set at the last examination, with the answers thereto, which we shall continue until finished. These papers must be of great use to future candidates, not only in showing the scope of the questions set, but also the best form in which to answer them.

BOOKKEEPING—*Continued.*

The Ledger.

The Ledger is not a book of account in double entry, for the simple reason that it is only the recipient, or collector, of what is recorded in the volumes, which represent, or supplement, the Cash Book and Journal.

The ledger is, in fact, an analytical index, or indiced analysis, of the records contained in the books of account.

This assertion is borne out by the laws relating to evidence. If the objection is raised, a witness cannot put in his ledger in support of an allegation, neither can his opponent compel its production, although the witness may be using it in the witness box. A witness is entitled to use his ledger in order to trace back to his books of account the transaction he is seeking to prove. So far does the law go on the Continent, that if a rough cash, or any other book of record is kept, that rough book (as containing the original entry) must be put in, the witness being allowed to refresh his memory, or to trace what is required by free reference to the fair copies of such books, or to the ledger, which is the index thereto. The ledger is also a *generic* term, as it may be divided into as many volumes as is necessary.

There are various systems of double entry in general use, viz. (1) the direct, (2) the indirect, and (3) the combined sytems.

The Direct System.

Where it is convenient to do so, postings should be made direct from the books of account which contain the original record of the transactions.

The reasons for this, are, (*a*) that every repetition of an entry increases the risk of clerical error, (*b*) that extra labour is avoided, and (*c*) that when required in evidence, access to such original record is far more easily obtained. Let it be assumed that "the cash book" is divided into two volumes, one for the house (or retail) and one for bank (or wholesale) transactions, the departments being kept distinct, and that "the journal" is made up of seven volumes, viz., bought goods retail,

bought goods wholesale, sold goods retail, sold goods wholesale, bills payable book (wholesale only), bills receivable (ditto) and adjustment and transfer book. There would thus be nine volumes of original record, all of which are used for posting from *direct* to the ledger. The books of original record are, in such case, sections, or divisions, of the cash book and journal respectively, and are therefore called *sectional* or *divisional* books.

In the case in point, we will further assume that so far as relates to "the journal" entries, the debtors and creditors accounts are posted up daily, and that with regard to "the cash book" all entries are posted daily with the exception of purchases and sales, which are kept in distinct columns. Once a month the total of each section of the journal must be posted. Thus restoring the balances or contras required in double entry, so far as those books are concerned, and posting in like manner the totals of purchases and sales contained in the cash divisional book. When all these postings are completed, we shall, by adding the balances of cash in hand, obtain as the result, a true balance, provided no clerical error or omission has taken place. This result, which is, in double entry, indispensable, will have been obtained at the minimum of labour; for instance, our wholesale credit sales may have amounted to One hundred distinct entries, during the month, and yet they only require one contra, the total of the months sales, which is posted to the credit of wholesale goods account; the treatment of the remaining *contras* being similar.

The Indirect System.

Let it be assumed that in a similar business, but of larger dimensions, similar books are kept to those mentioned under the direct system, but with this difference, that each section is divided into "odd and even" books, that is, one set is used for Mondays, Wednesdays, and Fridays, and the other set for Tuesdays, Thursdays, and Saturdays. There would then be four volumes of cash instead of two, and fourteen volumes of journal instead of seven. It is obvious that a cash book so broken up would be very inconvenient for reference; therefore the contents of such volumes are in condensed form collected into one general cash book; in like manner the contents of the fourteen divisions of the journal are corrected in condensed form into one general journal, and the contents of these two books are posted into the ledger.

COMPANIES' ACTS—*continued.*

THE liquidators are to send to the Registrar notice of the meeting having been held, and the date of it, and the company is considered as dissolved after three months from the registration of such notice. The cost and expenses of winding up and the amount paid to liquidators, as remuneration for their services, have precedence of all other claims, and are to be paid out of the assets of the company. The above apply to a voluntary winding up by the company itself, without any interference from the Court, except in cases where its assistance is required, but there is another method of winding up, and that is "winding up under the supervision of the Court," and for this method the Act provides in the next few clauses. After the Company has passed a resolution for winding up voluntarily, the Court may, on petition, make an order for such winding up to continue on terms approved of by the Court, and subject to its supervision. The petition, presented for the purpose, shall be considered to be a petition for winding up the Company by the Court, and the Court will have regard to the wishes of the creditors or contributories in deciding the question as to whether the Company shall be wound up by the Court, or only under its supervision.

In order to arrive at the wishes of the creditors or contributories in the matter, the Court may appoint meetings to be held, and may also appoint the chairman. In taking the votes at such meetings regard will be had in the case of creditors to the amount of the debt due to each, and in the case of contributories to the number of votes that each has under the regulation of the Company.

In case of winding up under the supervision of the Court, the Court may appoint one or more

additional liquidators, who will have the same powers as though they had been appointed by the Company, and the liquidators so appointed may exercise the same powers, and shall perform the same duties as if the winding up were voluntary, and the liquidators will have the same powers and duties as if they were official liquidators. When a Company has been wound up by the Court, or under its supervision, the books and documents shall be disposed of in such manner as the Court directs, and where the winding up has been voluntary they shall be disposed of in such manner as the Company, by extraordinary resolution, shall direct. But after the lapse of five years from the dissolution whoever has the custody of such books and documents, is not to be responsible to the parties interested therein, provided they are not forthcoming. If the winding up is by the Court or under its supervision, it may make an order allowing creditors, or contributories, of the Company to inspect the books and papers. The liquidators may compromise with creditors or with any persons having claims against the Company, but if the winding up is under the supervision of the Court, its sanction is requisite, and where the winding up is voluntary, the consent of the Company by extraordinary resolution is required. The liquidators may also, subject to such consent as before mentioned, compound any claims of the Company on a contributory, also any claims of any contributory on the Company or any claims between the Company and any other person, and may also take security for the proper discharge of claims due to the Company, and may give complete discharges for the same. Where the winding up is under the supervision of the Court, any execution against the effects of the Company put in force after the commencement of the winding up is void. Any Act done by, or against, the Company that would in the case of a private trader be considered as a fraudulent preference in the event of his bankruptcy will have the like effect, and will be deemed in the event of winding up the Company to be an undue preference of the Company's creditors, and invalid accordingly. The presentation of a petition for winding up, or the passing of a resolution for winding up voluntarily, will be considered as an act of bankruptcy. A Company cannot, under any circumstances, convey its property to trustees for the benefit of its creditors. If any past, or present, director, liquidator, or other officer of the Company, has misappropriated or become liable for moneys of the Company, or has been guilty of any breach of trust in connection with the affairs of the Company, the Court may, on the application of any liquidator, creditor or contributory, examine into the conduct of such defaulter, and compel him to repay the money so misapplied with interest, or to pay a sum by way of compensation for such misapplication, and this may be done whether the person is criminally responsible or not. If any director, officer, or contributory, of a Company being wound up under the Act either destroys or alters any books, papers or other documents, and even if he is privy to any such destruction or to the making of any false entries in any book or document belonging to the Company, with the intention of committing a fraud, the offender is guilty of a misdemeanonr, and liable to a punishment of two years' imprisonment with hard labour. The liquidators may, when the winding up is by order of the Court, or under its supervision, order at the expense of the Company the prosecution in a court of law of any past, or present, officer, or member, if it appear that he has been guilty.

STUDENT'S GUIDE.

We publish elsewhere an advertisement of Mr, Norton's Chartered Accountant's Examination Guide, designed for the help of Students in self-preparation for the Intermediate and Final Examinations of the Institute of Chartered Accountants. In addition to being prepared by a prize winner at the Final Examination, June, 1883, the questions and answers have been approved by the following authors: W. W. Kerr, J. H. Redman, William Phippens, E. W. Fithian, T. Eustace Smith, and F. W. Pixley. Esqrs., whose works are referred to. The questions and references on Partnership, Bankruptcy, Mercantile Law, and Joint Stock Companies Law have been checked and revised by J. W. Piercy, Esq,. solicitor. A work practically produced with the approval of these gentlemen who are well-known authorities, cannot fail to be of immense service to all students intending to present themselves for examination.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

The following is a list in order of merit of the successful candidates at the Examinations held in December, 1883:—

PRELIMINARY EXAMINATION.

NORMAN CLAYTON WALTERS, Warrington House, Park Hill Road, Croydon.
GEORGE SPENCER BANKART, 96, New Walk, De Montfort Square, Leicester.
JOHN HAINES BIDDLE, 88, Addison Road, Kensington.
WILLIAM CHARLES STANHAM, 15, Milner Square, Islington, N.
JOHN DOUGLAS STEWART BOGLE, 69, Mansfield Road. Gospel Oak, N.
JOHN INGLE, 276, Monument Road, Edgbaston, Birmingham.
CECIL STANLEY POLLITT, 12, Howe Street, Higher Broughton, Manchester.
CECIL JAMES BARNES, 18, Denmark Villas, Ealing, W.
ARTHUR FRANCIS WHINNEY, 90, Regent's Park Road, N.W.
JOHN PERCY SMITH, 7, Belle Vue Terrace, Gateshead-on-Tyne, Durham.
EDWARD GRAY, 106, High Street, Homerton.
GEORGE WILLIAM THOMPSON, Brougham House. Acoek's Green, near Birmingham.
WALTER HOWGRAVE, 37, Wiltshire Road, Brixton.
EDMUND GERALD ROBINS, 79, Alexandra Road, St. John's Wood.
JOSEPH EDWARD TONGE, Osborne Place, 42, Fitzwarren Street, Pendleton.
THOMAS ARTHUR PAYNE, 90, Hagley Road, Edgbaston, near Birmingham.
WILLIAM HENRY THOMPSON, The Willows, Timperley, Cheshire.
RALPH WALTER ARMSTRONG, Pelan House, Chester-le-street, Newcastle-on-Tyne.
REGINALD ROWLEY IVATT, 1, Bloomsbury Place, Bloomsbury Square, W.C.
WILLIAM EDWARD PITT PITTS, 6, Woodland Terrace, Redland, Bristol.

9 Candidates failed to satisfy the Examination Committee.

INTERMEDIATE EXAMINATION.

THOMAS CRESWELL PARKIN, clerk to W. Wing, Market Place, Chambers, Sheffield.
ROBERT SMITH, clerk to Broome, Murray & Co., 104, King Street, Manchester.
ALFRED ROBERT STEPHENSON clerk to F. Whinney, 8, Old Jewry, E.C.
PERCY MATTHEWS, clerk to Turquand, Youngs & Co., 41, Coleman Street, E.C.
GEORGE SYDNEY TURNER, clerk to Broome, Murray & Co., 104 King Street, Manchester.
JOSEPH LITTLETON, clerk to H. Anstey, 13, John Street, Bristol.
ATHELSTAN DANGERFIELD, clerk to Cooper Brothers & Co., 14, George Street, Mansion House, E.C.
TINSLEY WATERHOUSE, clerk to T. G. Shuttleworth, Wharncliffe Chambers, Bank Street, Sheffield.
JOHN HOWE BOURNE, clerk to E. Mounsey, 3, Lord Street Liverpool.
EDGAR WELCH BARROWS, clerk to W. N. Fisher, 4, Waterloo Street, Birmingham.
THOMAS GILBERT GRIFFITHS, clerk to Howard Smith & Slocombe, 37, Bennetts Hill, Birmingham.
ROBERT JOHN SISSONS, clerk to W. H. Fox, 17, Austin Friars, E.C.
RICHARD ROBERT HAMILTON, clerk to Broome, Murray & Co., 104, King Street, Manchester.
JAMES FREDERICK BURGIS, clerk to G. Clark, 12, Little Tower Street, E.C.
JOSIAH RIGBY, clerk to A. W. Chalmers, 5, Fenwick Street, Liverpool.
ARTHUR WILLIAM KENWORTHY, clerk to H. J. Goss, Swansea.
SIDNEY PEARS, clerk to Cooper Brothers & Co., 14, George Street, Mansion House, E.C.
SAMUEL BAKER SMYTH, clerk to G. Van de Linde, 12, Laurence Poulntney Lane, E,C.
JOHN ADDISON INGLE, clerk to J. Foster, 3, Rose Cresent, Cambridge.
THOMAS JOSIAH WITT, clerk to H. Spain, 76, Coleman Street, E.C.
CLEMENT KEYS, clerk to F. J. Heathcote, 13, Temple Street, Birmingham.
JOHN BASSET T. HALLAM, clerk to J. W. Barber, Alliance Chambers, George Street, Sheffield.

1 Candidate failed to satisfy the Examination Committee.

FINAL EXAMINATION.

FREDK. WM. SMYTH, clerk to A. Edwards, 82, New St., Birmingham. Certificate of Merit.
CHARLES CLAYTON, clerk to H. F. Knight, 2, Devonshire Chambers, Bishopsgate Street, E.C.
HENRY GODFREY, clerk to F. B. Smart & Co., 53, Cannon Street, E.C.
CLARE SMITH, clerk to Tribe, Clark & Co., 2 Moergate Street, Buildings, E.C.
CHARLES RICHARD TURLEY BATSON, Liverpool & London & Globe Chambers, Colmore Row. Birmingham.
THOMAS LEWIS RAWLINS, clerk to Heathcote & Coleman, 13, Temple Street, Birmingham.
JAMES BLACKBURN SUTTON, clerk to Handley & Wilde, 5, Booth Street, Machester.
JOHN FREDERICK BOND, clerk to Cooper Brothers & Co., 14 George Street, Mansion House, E.C.
JOHN TONGE, clerk to Broome, Murray & Co., 104, King Street, Manchester.
HUGH VERNON HERFORD, clerk to Howard Smith & Slocombe, 37, Bennctts Hill, Birmingham.
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WILLIAM PLENDER, clerk to J. G. Benson, 12, Grey Street, Newcastle-on-Tyne.
FRANK HYLAND. clerk to James & Edwards, 66, Coleman Street, E.C.
HARRY BARKER, clerk to H. Ball, 149, Palmerston Buildings, E.C.
HENRY JOHN JONES, clerk to J. Jones, 41, Foregate Street, Worcester.
HARRY FRANK WOODWARL, clerk to Carter & Carter, 33, Waterloo Street, Birmingham.
ROBERT WALTER BROWN, clerk to Grey, Prideaux, & Booker, 48, Lincoln's Inn Fields, W.C.
ARTHUR MAY GIBBS, clerk to Marreco & Darnell, 1, Clements Inn, W.C.

16 Candidates failed to satisfy the Examination Committee-

EXAMINATION EQUIVALENT TO THE FINAL EXAMINATION.

HORACE WOODBURN KIRBY, 4, Coleman Street, E.C.
JOHN WARD, 2, India Buildings, Liverpool.
EDGAR MUSGRAVE, 1, Bank Street, Bradford.
JAMES FINDLAY, Bank Chambers, Stephenson Street, Birmingham.
JOSHUA MARSHAM HALE, 26, Nicholas Street, Bristol.

1 Candidate failed to satisfy the Examination Committee.

CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

THE LAW OF PARTNERSHIP.

By W. Goode, Esq., Barrister-at-law.

The members of this Society assembled at St. Michael's Hall, to hear a lecture by Mr. Ringwood, on Partnership Law. Mr. Ringwood was unable to attend, through pressure of engagements, and the chairman (Mr. F. W. Pixley, F.C.A.) announced that the lecture would be delivered by W. Goode, Esq., barrister-at-law.

The following is a report of Mr. Goode's lecture :—

The Law of Partnership is a very great subject, and one of the most important branches of English Law, and I cannot do adequate justice to it in the space of one hour. I can only profess to give you an outline of the elements of the subject, and in preparing my remarks, I have had regard to the special requirements of gentlemen who are preparing themselves to become accountants.

In the great work on partnership by Lord Justice Lindley, there are sixteen definitions of the word "partnership" not one of which is regarded by that eminent judge as perfectly satisfactory. The only definition to which he gives his his distinct approval is this, "It is a voluntary unincorporated association of persons, standing to one another in the relation of principals, for carrying out a joint operation or undertaking, for the purpose of a joint profit." He does not himself give a definition, because he considers that a definition given by a text-book writer, not by law, is of no great value.

The chief characteristics of ordinary partnerships are three.

1. Community of interest in profits and losses.
2. Community of interest in the capital to be employed.
3. Community of power in the management of the business to be engaged in.

The only one essential characteristic, however, is that of "community of interest in the profits," without that, there can be no partnership, properly so called. That is the one essential. But although community of interest in the profits is essential, it does not of itself alone constitute a partnership, it is not the test of partnership. The doctrine used to be that every person who received his share of the profits of a trade, incurred the obligation of a partner. That doctrine was not approved of, for in a very important case, decided in the House of Lords in 1860 (Cox v. Hickman), the Court laid down that persons who share the profits of a business do not incur the liabilities of partners, unless that business is carried on personally, or by others as their real or ostensible agents. That law has been much qualified by a well known Act of Parliament "The Partnership Law Amendment Act, 1865," which is so important that I propose to give you, in brief, what is enacted by that Act.

A loan to a person engaged in any trade or undertaking, upon a written contract that the lender shall receive a rate of interest, varying with the profits, or that he shall receive a share of the profits, does not make the lender liable as a partner.

In the event of any such trader becoming bankrupt, or entering into an arrangement with his creditors by which means he pays less than twenty shillings in the pound, or in the event of his dying insolvent, then the lender of the loan shall not be entitled to recover any portion of the principal or interest; nor shall the vendor of the goodwill be entitled to recover any profits, until the claims of the other creditors have been fully satisfied.

No contract for the remuneration of a servant or agent of a person engaged in any trade or undertaking, by a share of the profits, does not of itself give him the rights of a partner or make him liable as a partner.

No widow or child of the deceased partner of a trader, receiving by way of annuity a portion of the profits of the business, shall by reason of such receipt be liable as a partner.

No person receiving a portion of the profits of a business in consideration of the sale by him of the goodwill of such business, shall, by reason only of such receipt, be liable as a partner.

The word "person" engaged in trade, is declared to include a partnership firm, joint-stock company, and a corporation.

There are generally considered to be three kinds of partnerships (*a*) ostensible (*b*) dormant (*c*) nominal but there are really only two kinds of partnerships "ostensible" and "dormant."

An ostensible partner is one who takes an active part in the business, and who appears to all persons dealing with that business, to be a partner; his name may not appear in the style of the firm, but it is generally known that he is an actual partner and is actively engaged as a partner.

A dormant partner or sleeping partner is as much a partner as an active one; he has the rights and obligations of a partner, but takes no active part in the business, and is not as a rule known to be a partner in the business, but he is liable for the debts of the firm on the ground that an undisclosed principal is liable for the debts incurred on his behalf by his agent.

Nominal partners are not partners properly so called. Lindley calls them *quasi-partners*. They hold themselves out to the world as partners in a firm, and induce persons to deal with that firm on the footing that they are partners. They are therefore prevented from denying the fact that they are partners, and become liable without being actually so. They have none of the rights of a partner, but incur the obligations and liabilities of a partner.

Now, with regard to the capacity of persons to become partners. As a rule no person under the age of twenty-one can be a partner. He cannot bind himself by any contract which the firm makes, and although he takes a share of the profits he is not liable for debts incurred whilst under the age of twenty-one.

Married women are fully competent to be partners, especially I think, since the passing of the "Married Womans' Property Act, 1882. Any woman who has property or skill, can contract as a partner and be a partner, without her husband's consent, but the husband is not liable for any debts or liabilities incurred by her.

Every partner must be *compos mentis. i.e.* no lunatic can be bound as a partner.

Clergymen can become partners; although a clergyman who becomes a partner renders himself liable to suspension or deprivation of his living.

There is a limit imposed by the Companies' Act, 1862," to the number of partners of a firm. Not more than ten persons can carry on business as bankers, and not more than twenty persons can carry on any ordinary business under the provisions of that Act, which require that they shall be registered as a joint stock company if they exceed those numbers.

Partnerships are generally created by an agreement of the parties The agreement is, as a rule under seal, and called "articles." A deed is not however necessary, except when the partnership is to extend over a year.

If a contract is made for an indefinite length of time, it is then a "partnership at will," however long it may last. It can be put an end to at any moment.

When a contract has been entered into for a term of years and that term has expired, there is necessarily a dissolution of partnership. If the partners desire to carry on

the partnership without a further agreement being made, it becomes a partnership at will, and all the terms of the agreement are applicable to the continuing partnership, except so far as they are applicable to a partnership for a term of years.

I regret that time will not allow me to go into the usual conditions of partnership deeds.

With reference to the rights and obligations of the partners as between each other:—

In the absence of agreement to the contrary, the powers of the members of an ordinary partnership are in all respects equal, they have community of power of management, although their shares in the profits, or in the capital, or both, may be unequal; there is no right on the part of one to exclude another from an equal share in the management.

One partner may agree to undertake more special duties than another, and he then receives a fixed salary for the performance of such duties. In the absence of agreement to that effect, no partner is entitled to special salary for special services performed.

The utmost good faith is necessary between partners. If one partner knows more about the business than another, and, concealing what he knows, enters into an agreement with that other relative to some matter as to which his superior knowledge is material, such agreement will not be allowed to stand.

This obligation to perfect fairness and good faith extends to persons negotiating for a partnership, although no partnership exists between them, and it continues between persons who have dissolved partnership until the business is finally wound up.

Good faith requires that no partner shall ever obtain a private advantage at the expense of the firm. He must do his best for the firm, and share with his co-partners all profit that he makes. If he attempts to make a profit behind the backs of his partners, they are entitled, in making up the accounts, to have the profit brought in.

On the same principle no partner can engage in any business in rivalry with the firm. If so, all the profit he makes must be brought in the accounts of the firm in which he is a partner.

In the absence of a special agreement, all the partners are interested in the partnership property, and are also equally interested in the capital and profits, unless the contrary appears from the agreement. The capital from the partnership is not the same thing as property. Capital means the aggregate of the sums contributed by each partner to the business. Property means the floating capital, the amount varying from day to day. A partner is not entitled to receive interest on his capital. If he makes an advance to the firm, it is generally agreed that he shall receive interest on that advance, but interest on the capital he is not entitled to, unless it is expressly agreed upon.

One of the most important rights of a partner is his right to have an account of the partnership dealings and transactions, and that right is not limited to original partners. If a partner dies, his personal representative (his executor or administrator) has a right to an account from the surviving partner. If a partner becomes bankrupt, his representative the trustee in bankruptcy has the same right. If all the partners die, their respective personal representatives have the same right of account as against each other. A sub-partner has no right to an account from the principal firm, except the principal of whom he is a sub-partner.

Sub-partners: If a partner agrees with a third person, that he shall participate in his share of the profits, that third person is a sub-partner. Any partner is at liberty to make an agreement with a third person; but if he does so the other partners have no connection with the sub-partner, and are not liable to render an account to him.

The account which is claimed, may be either general (*i.e.* with a view of winding up the business) or limited (*i.e.* confined to an account of some particular transaction or transactions.)

It was deemed to be an old rule that a decree for an account would be made by the Court, except with a view to dissolution of partnership. That rule is now no longer completely acted upon. There are two classes of cases in which the Court will allow a limited account.

(1) Where a partner has sought to withhold from his co-partners the profit arising from some one or more transactions.

(2.) Where a partnership is for a term of years yet unexpired, and one partner has sought to exclude his partner or drive him to a dissolution.

The usual defences to an action of account are, according to Lindley, six in number.

1. A denial of the partnership.

2. Statute of Limitations. (The defence that the action is brought too late.) The Statute of Limitations (James I. 21, cap 16,) enacted that all actions of account shall be commenced within six years' after the cause of action arose (with certain exceptions which were done away with by the Mercantile Law Amendment Act, of 1856). It therefore follows, that if none of the transactions occured within six years' before the commencement of the action, the action for the account must fall to the ground, and any decree for an account must be confined to transactions which have taken place within the previous six years before the commencement of the action. The chief exception is where there has been fraud on the part of the defendant. If he has been guilty of fraud, then no lapse of time will bar the plaintiff's right of action. If he has made payment, such payment makes the six years run afresh. And further, if he has given any acknowledgement of the plaintiff's right to an account, that act makes the six years run afresh. It is also laid down that the Statute of Limitations has no application so long as the partnership is subsisting, and each partner is exercising his rights and enjoying his property. The Statute of Limitations has no application until the dissolution of the partnership, or until one partner is excluded from his participation in the management and profits.

3. An account stated, i.e., a statement of the account, which must be in writing, and should be signed, but it need not be signed if it can be shown that the partners have acquiesced in it. An account may be impeached wholly or partly on the ground of fraud or mistake. If there be any fraud or mistake affecting the whole account then the whole will be re-opened, but if certain items only are disputed, the court will not re-open the whole account but go into those particular items.

4. Defence of an award, i.e., where the matters in difference have been disposed of by arbitration. This is no defence to an action for an account of moneys received, after the making of the award and not dealt with by the award, owing to a mistake on the part of an arbitrator, *e.g.*, certain partners referred their differences to an arbitrator, and he awarded that one of the partners should get in the outstanding debts which the arbitrator estimated at a certain amount, but which realized a larger amount. The court held that the other partner was entitled to an account of the moneys actually received. He was entitled to share in the difference between the amount estimated by the arbitrator and the amount actually received in respect of those debts.

5. Payment and accord and satisfaction. Payment is not a defence, as the object of the action is to ascertain how much is or was payable. But payment and acceptance of that payment in satisfaction of all demands is equivalent to payment and accord and satisfaction.

6. Release. In order that the release should be perfectly effectual it should be under seal. If it is not under seal, it is regarded only as an account stated, and whether under seal or not, it may be set aside on the ground of fraud.

The time from which the account begins, is, as a rule, from the commencement of the partnership. It is not so when some account has since been settled by the partners,

in which case, that settled account is the point of departure. The time when an account ceases, is the dissolution of partnership.

If the partners have had dealings together before the commencement of the partnership, these dealings must be brought into account. Transactions after the dissolution and before the winding-up must also be brought into account.

The decree for an account usually directs that all parties shall produce all books and papers relating to the creditors, on oath. If a partner has kept private books, they must also be produced. If a partner refuses to produce books and accounts in his possession, the account may still be arrived at by presuming everything against him. Partnership books and accounts being kept under surveillance are *primâ facie* evidence against the partners, but entries made by one partner without the knowledge of the other are no evidence against the latter, and although such entries are evidence against him of what he has received, they are not evidence as to what he has paid away on behalf of the firm. The Court has power by statute to direct that the accounts shall be taken by special mode. It is not usual to do so except in cases of necessity. The Court has every power to appoint professional accountants to assist in taking accounts, and may act upon their report.

Two of the chief remedies which one partner has against a co-partner are injunctions and receivers. In order to prevent a person acting contrary to his agreement, the Court may grant an injunction against him, or in certain cases the Court can take the whole of the partnership affairs out of the hands of the partners and put them in the hands of a receiver. An injunction may be granted against a partner, although no dissolution is sought, *e.g.*, where a partner is excluded by his co-partner from his share in the management. But where the partnership is at will, the Court will not grant an injunction, because if it did so, the other partner might dissolve the partnership and thus render the injunction ineffectual.

The object of appointing a receiver is to place the partnership assets under the protection of the Court, and to prevent everybody from in any way intermeddling with them. The receiver has no power to carry on the business unless he is appointed manager. The object of appointing a manager is to carry on the business under the direction of the Court, but the Court will not, as a rule, carry on the management of a partnership business except only with a view to its dissolution and final winding-up.

A receiver will not be appointed at the instance of a surviving partner on the death of one partner; the other partner has a right to carry on the business. Where all the partners are dead, it is the practice for the Court to appoint a receiver on behalf of all parties. The Court generally appoints one of the partners to be a receiver or manager if he has not been guilty of misconduct. It is usual for him to give security to manage the partnership affairs, and to account for money received by him. All the effects of the partnership, and all securities in their hands, together with all partnership books and papers, must be delivered up to the receiver. He is directed to get in the debts of the firm, and may bring actions to recover debts with the approbation of the judge. Further, he is directed to pay all partnership debts, pass accounts, and pay the balance in his hands into Court. Any interference with the receiver is contempt of Court, and may be punished accordingly (by imprisonment).

Liability of partners to third persons.—The rule is, that each partner is the agent of the firm, for the purpose of carrying on the business of the firm in the ordinary manner. He has power to do all things necessary to carry on the business of the firm in the ordinary manner, and so far as he does so, he makes the firm liable for his acts. If he buys goods on credit, the firm is liable for payment, notwithstanding any private arrangement between the partners themselves, such private arrangement being unknown to third party dealing with the partner. If the borrowing of money is necessary for carrying on the business of the firm, then one partner borrowing the money will bind the firm. If a partner in the course of business defrauds some third person, that third person can sue the whole firm for the damage. A partner in an ordinary mercantile business, has power to bind the firm by accepting or endorsing Bills of Exchange in the name of the firm. Payment of a debt to one partner is equivalent to being paid to all, as each partner has authority to receive money due to the firm, but a receipt, if not under seal, is not conclusive evidence of payment. It is merely *primâ facie* evidence, but when under seal, it is always conclusive. The only thing that will impeach a deed is fraud, and illegality. A partner is unable to bind his co-partners by a deed, unless authorised under seal to do so. He has no power to assign partnership goods unless authorised to do so. The power of attorney given him must be under seal; it does not apply however to a deed of release. A partner is able to bind his partners by a release, although not authorized under seal so to do. The liability of a partner continues until dissolution of the firm, and from the time of dissolution he is not liable for any future acts of the partners who continue to carry on the business; but he of course remains liable under the deeds contracted whilst he was a partner, and his liability continues until they are discharged or barred by lapse of time (6 years). Persons who have had previous dealings with the firm must be informed of the dissolution. It must be proved that they have received notice of the dissolution, otherwise they can hold liable those who were formerly partners. With regard to the world at large, a notice in the *London Gazette* is sufficient.

There is a striking difference between a partner in an ordinary firm, and a shareholder in a joint stock company. A partner is entitled to a community in the management of a firm, a shareholder is not. A shareholder has no power of himself to control or management; he can only act with his co-shareholders, and as they delegate their powers to the directors, a shareholder has practically no individual control.

A partner is not liable for the prior-existing debts of the firm which he joins. It is not so with a shareholder. When a person buys shares he becomes liable for the prior-existing debts of the company, although he was no party to the agreement under which they were created.

The liability of a shareholder for debts incurred whilst he was a shareholder continues for one year; the liability of a partner continues for 6 years.

I hope these remarks, which are necessarily brief, will be useful to you in your study and examinations, and I must thank you, gentlemen, for your kind and courteous attention.

At the suggestion of the lecturer, several members asked questions on points arising from his observations, all of which were replied to.

A vote of thanks was accorded to the lecturer and the chairman.

NEW WORK ON MERCANTILE LAW.

The Principles of Mercantile Law, by Joshua Slater, Barrister at Law. This book, which is now in the hands of subscribers, comprises in a handy form, at a reasonable price a concise summary of the law relating to Partnerships, Companies, Principal and Agent, Merchant Shipping, Bills of Exchange, Promissory Notes and the Bills of Sale Act, 1882, it also deals with the Bankruptcy Acts of 1869 and 1883 and gives the clauses of the various Acts bearing on the subject. The author has specially kept the requirements of Chartered Accountants before him, and those who have studied his Epitome of Arbitrations and Awards will know that he thoroughly deals with any subject he writes about. It will be specially useful to those who do not care to pay the high price for other works on the same subject containing as it does all the information required on the subjects dealt with.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

INCOME TAX PRACTICE.

BY A. MURRAY, F.C.A.

THE thirteenth ordinary meeting of the Manchester Accountants' Students' Society was held on Monday evening the 17th December, 1883, in the Old Town Hall, at half-past six o'clock.

There were present: Mr. A. Murray, F.C.A., the president; Mr. David Smith, F.C.A., the vice-president (in the chair); Messrs. William Aldred, F.C.A., William Ashworth, F.C.A., Samuel Mosley, F.C.A., and C. R. Trevor, F.C.A., together with a large attendance of members.

The Secretary, Mr. A. E. PIGGOTT, read the minutes of the previous meeting, which were declared correctly recorded.

Mr. DAVID SMITH, F.C.A., then called upon Mr. Adam Murray, F.C.A., to deliver his lecture on "Income Tax Practice."

Mr. MURRAY on rising said:—If it should be considered that the subject of this paper is not of sufficient general interest to Students, inasmuch as many of them have not the privilege of being Income Tax Payers, the best reply is to express a hope that their intelligence and industry may be such as will very soon raise them to that position, and that they may therefore be contributors to the State for many years; or if it should be thought that a knowledge of Income Tax Practice will not increase the usefulness of Accountants, as being a subject supposed not to come within their practice, the objection may be met by the assertion that there are those in the profession who *have* found it valuable to know something of the Income Tax Acts, and an advantage to their clients to be able to assist them, not only in making their returns, but in obtaining either a reduction of assessment, or a return of duty overpaid.

In the course of this paper, it will be attempted to show that as Auditors, Trustees in Liquidations, and otherwise, we may frequently have to prepare or adjust accounts for those purposes.

It will have been observed from recent reports in *The Accountant*, as well as a leading article therin, that the National Traders' League have addressed a memorial to the Inland Revenue Board, setting out certain imaginary grievances in connection with the assessment and collection of Income Tax, alleging

Firstly:—That the Surveyors have, without good ground, increased the Assessments on Traders under Schedule D, thus causing much trouble to those surcharged.

Secondly:—That rather than expose their books to the Commissioners, who may be friends either of themselves, or of the wholesale merchants, with whom they have trade connections, they elect to pay the charge, however unjust.

Thirdly:—A further complaint is that the District Commissioners ignore accounts produced to them, and the suggestion is made that the Board should make an order to the effect that accounts certified by any Chartered Accountant shall be conclusive evidence on which to base the amount of profit for assessment.

The reply given by the Inland Revenue Commissioners, is that the charge made against surveyors as to the increase of Assessments, and that against the District Commissioners, of ignoring accounts, are too general to be easily dealt with, but that if particulars are furnished of any instances of supposed hardship, the Board will institute strict enquiry, and that as to accounts being ignored by the District Commissioners, the Board understand from the principal officials that the District Commissioners *do* accept and *do not* ignore accounts certified by Chartered Accountants when such accounts are produced on appeal.

Now, it may well be imagined the trouble that is caused to surveyors and commissioners when traders go to them with imperfect accounts; and the experience of Accountants is that there is not any want of attention on the part of the commissioners and surveyors, but that, on the contrary, full information and instructions are given either to the Tax-payer, or to any Accountant who may attend on his behalf, either at the hearing of appeals or otherwise.

The surveyors can only desire that a fair and proper assessment may be made, and being *paid*, not by a poundage, but by a fixed salary, they have not any personal interest in the Tax Payer being overcharged.

It is due to the present surveyors in Manchester and to their predecessors, for at least twenty years, to say that they have been very reasonable in the discharge of their duty, and Accountants are under an obligation for the courtesy with which they have been received by them, as well as by the commissioners.

Statements have been accepted by them when they were satisfied that, while Accountants were protecting their clients, they were at the same time taking care that the Revenue received all that was fairly payable.

As to the objection to produce accounts to the District Commissioners who may be competitors in business, the reply of the Board is that any person chargeable on profits, under Schedule D, may, as intimated in the form of return, elect to be assessed by the commissioners for special purposes, such commissioners being resident in London, and not traders.

What has been said as to the surveyors, applies equally to the Special Commissioners' Department, and indeed to any other department with which Accountants may have relations, for instance:—The Probate, Legacy, and Succession Duty Departments. In correspondence or interviews with the Special Commissioners or officials, the same unvarying courteous attention is received.

If the inequalities in the incidence of the Tax could be adjusted, it would become less unpopular, but on the whole it is a Tax that is paid without much complaint.

The injustice of taxing industrial incomes on the same principle as if derived from property or investment, was fully considered by, and explained in the elaborate reports of, the committees appointed on the motion of the late Mr. Joseph Hume, in 1851, and in 1861, at the instance of Mr. Hubbard. The question has also been the subject of pamphlets by Mr. David Chadwick and others.

It is not the purpose, however, of this paper to enquire in what way the rights of the various classes of property and Income Tax Payers can be equalised, but rather to refer generally to the Income Tax Acts, and to give a few illustrations of points which arise in practice, and which students may find it useful to direct their attention to.

At various times, from 1370 to 1673, there appear to have been takes imposed, which partook of the nature of an Income Tax. In 1798 an Act was introduced at the instance of Mr. Pitt, for granting a contribution for the prosecution of the war, not imposing a duty upon property, but additional duties of assessed taxes, regulated by the amount of income, which the person charged with the assessed taxes, possessed. The amount realised for the year was £1,855,000. In 1799 the Act of 1798 was repealed, and in lieu thereof a duty imposed at the rate of 10 per cent. on income, which produced £6,046,000, being about £250,000 for each penny of tax. The tax was discontinued for 1802, and reimposed in 1803.

Up to 1803 the duty had been charged on individuals, on a general account of income from all sources. In that year the present system of charging each source by itself was first introduced, under the several Schedules A, B, C, D, and E, the rate of 10 per cent. being reduced to five.

There is an obvious advantage in the system introduced in 1803, and continued under the present Income Tax Acts in charging all income *at its source*, instead of making a charge

on each individual for the whole of his income. The tax is much easier of collection in this way, for instance:—From railway and other companies, instead of charging each shareholder separately; and the whole income of each person is not revealed, except in the cases of claims for abatement or exemption.

In 1806 the rate was increased again to 10 per cent., the tax being repealed in 1816, the amount produced in the last year being £14,500,000.

The present Income Tax Act, 5th and 6th Victoria, chap. 35, has been continued under various Acts of Parliament since 1842, when the tax was re-imposed by Sir Robert Peel, as a temporary tax for three years.

The rate of duty under the various Schedules, A, C, D, and E, for the year 1842 was 7d. in the £, or £2 18s. 4d. per cent., at which it continued until 1853. In 1854 it was 1/2, and in 1855 and 1856, 1/4 in the £. Since then the rate has fluctuated between 2d. and 10d. in the £, the rate for the present year, 1883-4, being 5d.

Under the 1842 Act, the rate under Schedule B, in respect of occupation of land in England was 3½d. in the £, and in Scotland 2½d.

Schedule A is levied on the annual value of Land, House, and other property, the original assessments in 1842 being prepared from the Poor Rate Assessments, power being given in the Act to require the production of the rate-books and to examine the overseers. The assessments are made on the rack rent, except where tenants' rates and taxes are agreed to be paid by the landlord, in which case the assessment will be reduced correspondingly. Certain deductions and allowances are provided for in respect of colleges and stalls in universities, hospitals, schools, &c.

The tax is due from the owner, being a charge on the property, and payable either direct by the owner or by the tenant. If by the latter, then it is received from the owner by way of deduction by the tenant out of his rent, but the tenant is not entitled to deduct until he has paid the tax, and when the tax is allowed to him, he should deliver the collector's receipt to the owner. This is in conformity with Sec. 60 of the 1842 Act, Rule 4, Sub. Sec. 9. Provision is also made for an allowance for the time during which property may be unoccupied. This Schedule originally included profits from quarries, iron, and other works, canals, railways, and similar undertakings, but these were in the year 1866 transferred to Schedule D. If the whole income of the owner of the property is within the amount to entitle him to exemption, the assessment under Schedule A will either be discharged, or he will be allowed to claim repayment of he tax.

If an owner has borrowed money on mortgage of his property, he will deduct the tax on paying to the mortgagee, and if the owner is entitled to exemption, the assessment will be discharged, or duty will be returned, except as to interest on mortgage debt, the tax being collected in respect of the property, and not as a charge on the mortgagee, who pays by way of deduction. For example: If A owns shop property, the annual rack rent of which is £200, and he has borrowed on the property £2,000 at 4½ per cent., the interest on which is £90, his net income from the property being £110, the owner, on paying the interest, will deduct tax at the present rate of 5d. in the £, he having paid on £200. If he has not any other income, he will claim to have the assessment discharged, except as to the £90.

In a recent number of *The Accountant*, a correspondent X.A., stated that a mortgagee had refused to allow the tax from interest on the ground that he paid his own tax. X.A. properly concluded that, if so, the tax was paid twice over. The case stated is an improbable one, as there is not any place in the Schedule D return in which to enter interest on mortgage.

With Chief Rents the deduction is made in the same way s in the case of interest on mortgage.

Whenever a change takes place in the rate of income tax, we see in the newspapers that a tax collector or other correspondent usually furnishes the public with advice as to the rate to be deducted from quarterly or half-yearly Chief Rents, &c. Such statements are frequently misleading and create difficulties.

The simple course is to deduct the old rate up *to* the 5th April, and the altered rate *from* the 5th April, by apportionment, and to follow the rate for the time being.

Any instructions from the Inland Revenue Office are only intended to refer to railway and other companies, in cases where an adjustment has not been made in the half-year current at the time of the passing of the new Act.

Schedule B is the Occupation Tax, in respect of farms, nurseries, market gardens, land, &c., the duty for 1883-4 on land in England being 2½d. in the £, and in Scotland and Ireland 1⅝d, the charge at these rates being on the principle of estimating the profits in England at one half of the rent, and in Scotland at one third thereof. Tenant farmers and others may appeal against the assessments under Schedule B, if their actual profits are less than the estimate on which the assessment is made.

Schedule C is for the assessment of dividends on the public funds, there being an exemption in the case of Friendly Societies, Savings Banks, and Charitable Institutions, the claims for the return of duty having to be sent to the Special Commissioners.

The assessments under Schedule D are those with which we are more familiar, and which require more attention and consideration than the others, this Schedule including the assessment of profits from all trades, professions, employments or vocations, and the profits from companies such as railways, water, canal, iron, coal, &c., which were previously included in Schedule A, having since the year 1866 been transferred to Schedule D, the assessment on railway companies being made by the Special Commissioners. The form No. 11A contains full information with an abstract of the rules and regulations for guidance in filling up the various particulars required. In the case of coal and other mines the return is to be made for the profits on the average of the *five years* preceding; for trade manufacture, professions or employment on an average of *three years* preceding, and in the case of work such as iron, gas, salt-water, canals and other concerns of a like nature, on the profits of the *preceding year*.

When owners occupy their own works or buildings, there is not any deduction allowed for depreciation of buildings. Up to the year 1877, there was not any allowance made for the depreciation of machinery and plant, on the ground that this was covered by the allowance made for repairs and alterations of machinery, that provision being construed liberally by the Income Tax Commissioners, so as to embrace the full amount actually expended, not only for repairs, but also for renewals or replacements. Depreciation of machinery and plant is now allowed, the rate of per centage being a matter for arrangement with the commissioners or surveyors.

As previously mentioned, returns under Schedule D may be made for assessment by the Special Commissioners where there is any objection to make the return to the District Commissioners, and in the event of appeal, it is equally convenient to attend before the Special Commissioners, inasmuch as they go on circuit annually for the purpose of hearing appeals. In this way the returns of individuals or firms are concealed from their neighbours.

It will be apparent that the Ledger Profit and Loss Account as ordinarily made up will not show the amount of profit to be used for the purpose of making a return—the net profit according to the books having been arrived at after charging items which are not allowed, for instance:—

Rents payable.
Interest on Mortgage.
Interest on Capital.
Depreciation of Buildings or Instalment written off Cost [of Mines.

Partners' Salaries.
Income Tax.

One or two examples may be useful—Assume that in the case of a colliery the net profit according to the accounts is £10,000 0 0

This amount is to be increased by deductions made before ascertaining such profit, viz :—

For Partners' Salaries	£1,000	0	0	
Royalty payable	5,000	0	0	
Income Tax	500	0	0	
Instalment written off cost of colliery	8,750	0	0	
Interest on Capital	2,000	0	0	
				17,250 0 0
				27,250 0 0
Less, cottage rents included in profits				250 0 0
Leaving profit for assessment				27,000 0 0
The profit on the same principle for the four years preceding being respectively :—				25,000 0 0
				26,000 0 0
				27,000 0 0
				30,000 0 0
				5)135,000 0 0
Average profit				£27,000 0 0

The royalty is added as above to the net profit because on the payment of such royalty the Income Tax is deducted by the colliery owner, and the rent of cottages is deducted because the tax under Schedule A is paid upon them by the owner.

In connection with the item *Instalment written off Cost of Colliery*, there have been some important cases before the Courts. In that of Addie and Sons, in the Court of Exchequer, Scotland, in the year 1875, the cost of pit-sinking was not allowed, being held to be a charge on capital. In the case of A. Knowles and Sons, Limited, the High Court of Justice, Exchequer Division, gave judgment in 1880 in favour of the company and allowed them to make a deduction for exhaustion of capital by the working of the minerals, the view taken being that the effect of transferring the assessment of mines from Schedule A to Schedule D was, as the Judges thought, to cause the company to be assessed as carrying on the trade of vendors of coal, having bought wholesale a large quantity, not stored in warehouses but in the earth, and which they were going to sell in the course of their trade, and that they ought to be assessed on the principle of valuing the stock-in-trade, that is :—the coal thus stored in the earth at the beginning of the three years, and again valuing the stock at the end of the three years, taking the difference between them into account in estimating the profits for assessment.

This judgment, however, has since been overruled in the case of the Coltness Iron Company.

The company claimed in the first instance to have a deduction of £9,027, being the cost incurred in sinking new pits. This claim was afterwards amended, because it was found to be not the cost of sinking new pits, but the amount of an annual instalment written off an account in the books called *Sunk Capital Account*, the instalment being estimated as equal to the exhaustion of capital by the working of the minerals. The claim was disallowed by the Commissioners of the District, and their determination was afterwards affirmed by the Court of Exchequer, Scotland, on the 7th January, 1881. The case was then taken to the House of Lords and argued very fully, it being maintained on *behalf of the company* that they were entitled to the deduction claimed under the Inland Revenue Act, 1878, which gave power to allow for depreciation of machinery and plant; that there could not be any profits until the expenditure was repaid, that in the wages expended there was not anything to represent capital; and that in fact the sinking of pits was an expenditure in winning the minerals, and not an investment of capital.

On behalf of the crown it was argued that the cost of pit sinking was an expenditure on capital account, that the statutes did not allow any such deduction, the 1878 Act only providing for a just and reasonable deduction for the dimished value of machinery and plant. The case of Miller v. Ferrie was also referred to, in which it was decided that no deduction for exhaustion of capital by diminution of minerals could be allowed.

Earl Cairns, Lord Penzance, and Lord Blackburn were unanimous in their opinion that the claim of the Coltness Company could not be allowed. They admitted that the exhaustion of capital would be a proper charge in the Profit and Loss Account, but not for Income Tax purposes; that the assessment *was not on profits, but on annual value*, and that there was not any distinction between temporary and permanent incomes, and instanced the case of terminable annuities. They also held that the decision in the case of A. Knowles and Sons, Limited, was wrong, and one which in their opinion was not capable of being supported.

Lord Blackburn said that "whether just or not, there can be no doubt that the same annual charge is imposed upon a terminable annuity and on one in perpetuity, and what seems harder, that the same annual charge is imposed upon a professional income earned by hard labour, often extending over many years before any return is got, and when earned precarious, as depending on the health of the owner."

The result of the decision in the Coltness case is to overrule that of A. Knowles and Sons, Limited, and consequently there is not any allowance for exhaustion of capital.

It was also held by the House of Lords that although mines had been transferred from Schedule A to Schedule D the assessment of them was still under the rules in Schedule A, and subject to five years' average.

It appears however still to be undecided whether expenditure on pit-sinking, or some portion thereof during the years included in the average should not be allowed.

Earl Cairns said, "I am not prepared to say that a mine owner might not in some cases be entitled to an allowance in respect of the cost of sinking a pit, by means of which pit the minerals are gotten which are the source of profit for the year in which the pit was sunk. I desire to reserve my opinion on that point until the question arises."

Lord Blackburn said, "I do not wish to lay down any general proposition either that money expended in sinking pits can never be in the nature of expenses incurred within the five years in working the coal so as to be properly taken into account in estimating the profits made in that period or to say what, if any, the circumstances are under which it may be done. That, I think, had better be left to be determined when the case arises."

Another instance is that of a Limited Company carrying on business as manufacturers in works owned by the company.

Net profit for one year according to the Profit and Loss Account in the books					£15,562 10 0
Add deductions made in account before arriving at such profit, viz :—					
Income Tax	£212	5	0		
Depreciation of Buildings	384	9	0		
Chief Rents paid	187	10	0		
Interest on Mortgage	450	0	0		
				1,234 4 0	
					£16,796 14

Deduct Chief Rents received and included in above profits	95	10	0
	£16,701	4	0
Profits for the two years preceding viz:.....	14,807	8	0
	15,502	17	6
	3)47,011	9	6
Average Profit.....	£15,670	9	10
Deduct also the annual value of the works at which the property is assessed under Schedule A ..	1,540	0	0
Leaving amount for assessment under Schedule D	£14,130	9	10

The chief rent paid and the interest on mortgage are added because the tax is deductible from those amounts when paid by the company to the owner of the chief rent, and to the mortgagee. In like manner the chief rent received by the company is deducted because the tax is allowed to the person from whom the chief rent is receivable.

The deduction of £1,540 is made because that sum has already been paid upon under Schedule A, and the profits are only net after deducting the amount at which the works would let to a tenant instead of being occupied by the owners. This is a deduction which is not unfrequently lost sight of.

The two statements given as examples are only for the purpose of ascertaining the average amount to be returned by adjustment of the Ledger, Profit and Loss Account balance. Of course for the purpose of claims for the reduction of assessments, which will be referred to hereafter, it will be needful to furnish detailed Profit & Loss Accounts, excluding the before-mentioned items.

Although it was formerly considered that rates, taxes and premium on insurance from fire were not allowable as deductions in estimating profits, the practice of the commissioners and surveyors now is to allow payments for ates, taxes, and the insurance of buildings and stock.

In the case of a firm in this country having also a house abroad, the return should include the share of profits in the foreign house (when remitted to this country) to which partners resident here are entitled.

A company having its head office abroad is not liable to the tax on the whole of the profits, but only in respect of the profits arising from the English branches or the dividends paid in the United Kingdom.

This was so held by the Court of Appeal, May, 1881, in the case of the Imperial Ottoman Bank. Dividends payable in this country out of Foreign and Colonial Revenues, or on the stocks, funds or shares of Foreign and Colonial Companies are subject to Income Tax.

The Court of Appeal held in the case of the Mersey Docks and Harbour Board, in December, 1881, that surplus revenue applicable to extinction of debt was profit and assessable to Income Tax.

It is important to notice that if at the end of the year of assessment it is found that the average profits including the year of assessment (charged under Sched. D) are less than the average for the three years on which the return was made, the Commissioners may cause the assessment to be amended, or if the tax has been paid, to certify to the Special Commissioners the amount overpaid so that it may be repaid. The 133rd Section of the 1842 Act, authorised such adjustment, not on an average of three years, but on the amount of profit for the *year of assessment*. This was amended by the Customs and Inland Revenue Act, 1865, 28th Victoria, chapter 30, section 6, which provided that the deduction or repayment to be made, should be for the difference between the profits on *an average of three years including the year of assessment*, and the sum on which the assessment had been made.

In *applying for a return of the tax* in the case of mines, iron and other works, the accounts are to be taken *on an average of three years*, notwithstanding that the return has been made on an average of five years in the case of mines, and on the profits of the preceding year in the case of iron and other works.

Notice of Appeal under the 133rd section of the 1842 Act, and of the 6th section of the 1865 Act, is to be given within 12 months after the end of the year of assessment in respect of which the appeal is intended to be made.

The provision under these sections was intended to meet cases of fluctuating profits, and although there is a general impression that duty once paid cannot be recovered either in whole or in part, nevertheless large sums are from time to time either discharged or repaid in respect of claims made under the two sections referred to. Doubtless there are many cases in which the tax might properly be recovered but in which claims are not made in consequence of it not being generally known to Income Tax payers that they are entitled to discharge or repayment where the average including the year of assessment has been less than the estimate.

As to the complaints which are made from time to time of the hardship and trouble caused by having to attend for the purpose of appealing under Schedule D, these complaints are believed in the majority of cases to come from those who have been assessed *not having made returns*, and thus the trouble is brought on themselves. It rests with them to assist the surveyors and officials in making proper assessments. The Board has discouraged the charging of persons upon sums beyond their actual income, as being calculated to give rise to complaints on the part of the public and to diminish the confidence of the District Commissioners in the judgment of the surveyors.

Schedule E is for the assessment of salaries of those in public offices and public companies, including the fees payable to auditors appointed by shareholders in companies.

It is only needful to refer to the allowance which is made under each of the Schedules in respect of Premium on Life Insurance (not exceeding one-sixth of the income), and to the total exemption from assessment, where the income from all sources is less than £150 a year, and that an abatement of £120 is made from all incomes amounting to £150 or upwards, and under £400.

The system of average leads to inconvenience, and it is questionable whether any advantage arises from it, either to the taxpayer or the Revenue. It would be a great improvement to make the assessments in all cases on the actual profits of the year ending 31st Dec., immediately preceding the year of assessment. At present the assessments under Schedule D for coal and other mines, are on an average of *the five preceding* years; for trades, professions, vocations, and employments, on an average of *three years*; and on iron and other works, the profits of *the preceding year*, whereas under Schedule E, the assessment is made on the income or salary of *the year of assessment*, and if made on the income of the previous year, is subject to increase at the end of the year for which the charge is made, so that in the case of employés of individuals or firms, they are assessed under Schedule D, on an *average of three years*, and employés of Limited Companies are chargeable under Schedule E on the *salary of the current year*.

The Income Tax was not extended to Ireland until the year 1853.

On lands, houses, and salaries, the tax is supposed to be levied almost to the full amount payable, but this is not the case with profits under Schedule D. Discoveries have from time to time been made that fraud has taken place in various ways. Either unwillingly or intentionally returns have been made at amounts much less than the actual profits, and it has been estimated that as much as £1,000,000

per annum would be added to the tax if accurate returns were made in all cases.

The following are instances of some of the defective returns:—

Return made for.	Assessment made, and duty paid on.	Return made for.	Assessment made, and duty paid on.
£	£	£	£
2,000	39,500	5,000	30,000
9,000	38,000	39,000	52,000
55,000	81,000	14,000	55,000
23,000	45,000	Nil.	63,000
2,000	12,000	140,000	186,000
16,000	24,000	6,000	88,000

In one case the sum of £11,000 was received from one person for duty under-paid; in another £10,500 on an annual income of £13,000, from 1842 to 1865. In another instance tax was received on £288,000 in respect of profits previous to 1870.

Fraudulent returns are frequently discovered in connection with claims for compensation for loss of business carried on in premises required for town improvements, or otherwise, and for injury in railway accidents, and from the frauds discovered it is fair to conclude that many escape detection altogether.

Frauds have also been discovered in connection with the exemption of foreigners who reside abroad from the tax on foreign dividends payable in this country. It was found that it had become a business for some persons to purchase coupons, the property of British subjects resident in this country, and then to send them abroad, to be returned to this country, ostensibly from foreigners resident abroad, in order to claim exemption from tax, and this was carried on for a time on such a large scale as to make it remunerative. It is very reprehensible that these frauds exist, and, as Accountants, we ought not to be parties to any irregularity, but do all we can to assist the Revenue in the collection of what is fairly due. It would have a deterrent effect if proceedings in such cases could be taken in the local courts, by which means they would be made public. As against the cases of fraud, there are instances, but probably not numerous, in which it is convenient for persons to be assessed on a large amount for the sake of appearance.

In the case of an insolvent in Manchester, who was assessed at £5000, when asked how it was that he had not appealed, replied that if he had done so, one of the Commissioners, from whom he made large purchases, would not have continued to give him credit.

Some companies do not deduct the tax from their dividends, but in such cases the dividends have not to be returned by the shareholders for assessment.

The large number of claims for repayment entail vast labour on the surveyors, and the department of the Special Commissioners. Cases of total exemption and abatement of £120, as well as allowances for Life Premium can be dealt with by the surveyors so far as regards Income Tax, which is chargeable direct to the claimants, but where such allowances are claimed in respect of income, the tax on which is charged by way of deduction, the only means of affording to such persons the relief to which they are entitled is by repayment, forms of claim for which have to be furnished to the surveyors, and by them transmitted to the Special Commissioners, from whose department the warrants for repayments are issued.

All such claims have to be made within three years after the end of the year in respect of which the claim is made.

Useful books on the subject of Income Tax Practice are:—*Senior's Handbook; Muir's Manual; Long's Popular Guide;* and much information with statistics and reports of judicial decisions will be found in the annual reports of the Commissioners of Inland Revenue.

The Income Tax having now existed for 41 years, it may be looked upon as permanent. In 1842 it was imposed as a temporary tax, but it has never been convenient to substitute any other tax in its place. It is true that Mr. Gladstone went to the country nine years ago on a proposal to abolish the tax, but that was when there was a surplus of £6,000,000, and it is not likely that we shall soon have a Chancellor of the Exchequer prepared to give up a tax which now yields about £10,000,000 annually.

The nett annual produce, after deducting allowances, repayments, &c., and the produce for each penny of tax, was for each decade since 1842, as follows:—

	Total.		For each penny of tax.
1842.....	5,405,000	....	772,000
1852.....	5,667,000	....	809,000
1862.....	10,723,000	....	1,192,000
1872.....	6,897,000	....	1,724,000

And in 1880, being the last year for which the amounts have been ascertained: 11,095,000 1,849,000

The nett amount of Income on which tax was received for the year 1881-2, after all allowances, abatements and repayments, is estimated at £480,000,000, out of a gross assessment of £601,450,977.

It seems only left to us, therefore, to wish that we may have increasing incomes on which to pay the tax.

The paper is not by any means exhaustive. There are many important cases which might have been referred to, and details which might have been given, but these can always be dealt with as individual cases arise, and the surveyors will always willingly render assistance.

There may, however, be sufficient in the paper to indicate the leading features of Income Tax Practice.

Mr. Wm. Aldred, F.C.A., then rose to propose a vote of thanks to Mr. Murray, which was seconded by Mr. Silas Cooke, jun., and supported by Mr. C. R. Trevor, F.C.A., who made several remarks bearing upon the subject, giving the figures, showing the various amounts of assessments made during one or two periods of years, and pointed out the utility that a study of the subject would be to students.

The vote of thanks being then put to the meeting, was carried with acclamation.

A discussion of the subject then followed, in which Mr. Wainwright (Fletcher, Holmes, and Wainwright, Ashton-under-Lyne) said, in reply to a call to speak from the Chairman, that he considered it a compliment to be asked to say a few words, as he had not been able to previously attend the meetings of the Society, but that he was glad to have that opportunity of expressing the pleasure he experienced in listening to Mr. Murray's valuable lecture, and that though he had had a large experience in Income Tax matters, he had learnt many things to-night. He said that he thought Fire Insurance Premiums should be allowed by the Commissioners when returns were made, and also gave an account of some matters that had come under his own experience.

Mr. T. B. Brooks, A.C.A., said that he had listened with a great degree of pleasure to the lecturer's exhaustive paper, and in the course of his remarks, said that in his opinion subscriptions and donations to charitable institutions ought to be allowed off assessment. He also spoke of the probability of persons returning their Income Tax at a *larger* amount than it really was, and thus paying more than they ought to do, because they did not care to disclose the books to Commissioners who happened to be in the same trade.

Mr. Mosley, F.C.A., and Mr. Wm. Aldred, F.C.A., both complimented the lecture upon his paper, and gave instances of matters in practice that had come under their notice, and the latter gentleman said that he had always found the Commissioners willing to listen to appeals, and to do what was right.

Mr. C. R. Trevor, F.C.A., remarked upon the question of bad debts, and stated that it was the practice of some surveyors to object to bad debts being claimed off unless they occurred in the same year as deducted, but suggested

as a remedy that the taxpayer should claim on past years returns as being over-estimated.

Mr. David Smith, F.C.A. (Chairman), following up the remarks made by previous speakers, said that he considered that the tax was an equitable one, and stated that in regard to the matter of Fire Insurance Premiums, in some districts they were allowed, and he thought they ought to be allowed as they stood in the same category as Life Assurance Premiums—a promotion of thrift.

Mr. Smith also supplemented Mr. Brooks' remarks as to many men paying tax on larger amount of returns than warranted, because they feared exposure.

Mr. Murray, F.C.A., then replied to the various speakers, and said that he had had much pleasure in the preparation of the paper, gave an amusing account of his own experience of four years' service in a tax office as a youth. In the course of his remarks he said that the Income Tax Commissioners say that thousands of pounds might be rebated if the payers only knew how to go about it. He spoke about the returns having to be made where goods are *manufactured*, not where they are sold, and said that he also considered the tax to be a fair one, and could only wish for the members of the Society that they might all have large incomes upon which to pay.

A vote of thanks to the Chairman closed the proceedings.

SHEFFIELD CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.

EXECUTORS' AND TRUSTEES' ACCOUNTS.

By W. G. Hawson, F.C.A.

At an ordinary meeting of the Society, held at the Law Society's Rooms, Hoole's Chambers, on Wednesday, the 28th of November last, the following paper was read by Mr. W. G. Hawson, F.C.A., to a large number of Honorary and Ordinary members, on "Executors' and Trustees' Accounts":—

Having been requested by your Committee to take part in the programme of subjects which they have prepared for the instruction and advancement of the students of your Society, by reading a paper on one of the subjects selected for the final examination for admission to membership of the Institute of Chartered Accountants in England and Wales, I not only felt it a duty, but also a pleasure, to contribute something, however feeble it might be, to the furtherance of the objects of our Charter, and to the advancement of the profession in which I have for many years taken an active part and a great interest.

I experienced some little difficulty at the outset in the choice of a subject, mainly arising from the fact that I was anxious to avoid clashing with the choice of other members, feeling that variety of subject in these papers would be more acceptable to you than variety of treatment, particularly in the early stages of your existence.

I was, however, relieved from this difficulty by a happy suggestion on the part of one of your members, which was that I should read a paper on "Executors' and Trustees' Accounts."

I readily fell in with this suggestion, as it is a branch of our profession in which I have had some considerable experience and taken a great interest. I trust, therefore, that the remarks I may have to make will be equally interesting and instructive.

Some years ago—and in many districts even now—it was the practice for the accounts of Executors and Trustees to be kept in the solicitors' office, and doubtless in small estates this has been, and is, the simplest method of disposing of them, but of late years the wealth of the country has greatly increased and become more widely distributed, and estates of magnitude of deceased persons are more numerous.

Fresh channels for investments have opened up, and are still continuing to do so, providing a variety of ways in which men of the present day may embark their wealth. Consequently the realization and disposition of their estates has become more complicated, involving greater responsibilities upon executors and trustees than formerly. It is therefore almost a matter of necessity that the services of a skilled accountant should be employed to aid the executors and their solicitor in the preparation of their accounts and administration.

And doubtless in time this branch of an accountants' business will so develop as to render it a very much more important part of our profession than it has hitherto constituted.

In fact the same may be said of this as of other branches of the profession, as trade and commerce increase and bring with them the accumulation of property and wealth, and large undertakings with their accompanying responsibilities, so will the utility of a professional accountant and the distinctive duties attaching to his calling become more widely recognised.

With reference more particularly to the duties attaching to us in connection with executors' and trustees' accounts, it has frequently been a matter of doubt as to where those of an accountant end and those of a solicitor begin, but I think there need be no difficulty on this point, as to my mind their respective duties may be clearly defined, and, where carefully and judiciously managed, the two professions may work together in the most perfect harmony.

In most cases in which I have been entrusted with accounts of this nature, it has been at the suggestion of the solicitor that my services have been called in, and the matter has always been conducted on lines mutually satisfactory to us both; and where it has been necessary to consult the solicitor in the bearing of those special points which happen in one form or another in every trust one has to do with, I have always found him not only willing but anxious to render every assistance in his power to ensure the accounts being established on a thoroughly accurate basis.

Of course when accounts are placed in our hands we must remember that we are held responsible for their accuracy, and the solictor does not feel himself called upon to exercise that supervision which he otherwise would do if we had not been employed, or be in any way responsible unless he is consulted. It is therefore our duty to our client, when occasion requires, to consult him during their preparation, as when once the accounts have been prepared and the estate disposed of, it is too late; and any error of principle on our part afterwards discovered, may not only lead to serious complications, but be very damaging to our professional reputation.

It therefore behoves us to devote much care and attention to their preparation, and to thoroughly clear up at once any point upon which there may be even the shadow of a doubt.

You are aware however that in this as in all branches of our profession it is necessary for us to be acquainted with some legal knowledge, and not to have to run to the solicitor's office for guidance in every little matter, as the various duties we are called upon to perform are so subservient to the law that without it we are unable to conduct the various matters intrusted to our care to any practical and reliable issue. The Institute of Chartered Accountants has therefore very wisely required candidates for examination to pass in a legal, as well as practical, knowledge of those subjects which directly bear on the duties of our profession.

And there is perhaps none in which it is more important than that bearing upon the subject of my paper this evening. I therefore earnestly recommend every student of this Society to make himself thoroughly acquainted with the principles of the law relating to the duties of Executors and Trustees; the nature of the accounts required to be kept by them, and the disposition of the estates committed to their charge, in order that when he is called upon to deal with

questions of this nature he may understand the distinctions which exist, and be able to act promptly upon the instructions given to him, as well as be able to give a practical opinion on the treatment thereof when called upon to do so, for whatever our qualification for figures may be, we shall not be able to grasp fully the instructions that may be given to us, and bring such intelligence to bear as the subject requires unless we have a sufficient knowledge of the Law which regulates these matters.

A man dies leaving behind him considerable property. He has left a will stating how that property is to be disposed of, and entrusting the disposition to one or more individuals who are styled his executors and trustees—usually friends or relatives, or perhaps both of some standing and business capacity, in whom he has implicit confidence. He may, or he may not, have bequeathed them a legacy as a token of his esteem, and a compliment for the trouble and attention they will be required to devote to the performance of the duties of the office. Invariably the sum so bequeathed is a mere compliment, and totally inadequate to the time and responsibility usually attending such duties. In fact the responsibilities are perhaps greater than in any other capacity in which one may be placed, and are seldom realized at the outset. A man can do as he likes with his own: he can enter into engagements and contracts; speculate and embark capital in anything he chooses; buy and sell and hold shares, in both limited and unlimited joint stock companies, banks, and the like; and, if he suffers loss thereby, has no one to account to but himself. Not so an executor and trustee, he may only make such investments as are admissible by law, or by specific declaration of the will of the testator. If he enters into any engagement or contract, or carries on a business, even with special authority for so doing, he runs a risk, he must account strictly to the estate for all profit made; and if a loss is incurred, he is liable to have to make it good out of his own private resources; if he holds shares in public companies or banks, or any undertaking upon which there are implied calls—even where such investments are part of the trust estate which comes to his hands at death of testator—he had better realize as soon as possible, as in the event of the estate being insufficient to meet the calls when made, he is personally liable.

He can claim no remuneration for his services, however onerous and complicated the estate may be, but he may claim expenses out of pocket incurred in performance of his duties, and can employ the services of a solicitor and an accountant or agent, where the nature of the case justifies such employment, but he will not be allowed the costs of either in respect of work which he should have performed himself.

If he refuses, or is unwilling, to act in the capacity to which he is appointed, he must be careful not to interfere or intermeddle in the slightest degree with the testator's affairs, as having in any way done so, and then refusing to continue, he is liable to be committed for contempt of Court; and having acted, he must not purchase for himself either directly, or indirectly, any part of the testator's assets, even in the most perfect good faith.

It is therefore clear that the office of an executor and trustee is by no means a sinecure, but one involving serious responsibilities, and, when attended with the annoyance and worry not unfrequently experienced with dissatisfied and needy legatees, it is well said to be an unthankful office.

I have, so far, named a few of the grave responsibilites of executors and trustees, but there are still many more which I have not touched upon, as the student will readily see if he dives into the subject. I think I have, however, said sufficient to show that it is a matter of infinite importance that executors and trustees should have their accounts accurately and faithfully kept, and in a manner clear and straightforward, and strictly in accordance with law; it therefore follows, that, if we, as prossessional accountants, are to be of any real service to our clients in these matters, we must be thoroughly masters of the subject, and when accounts are placed in our hands, be able to do all that is required of us, by seeing that they are established on a basis at once in conformity with the law and specific dispositions of the Will.

We should be in a position to shew that all the required duties have been paid, and to produce a clear and perfect account of the executors stewardship, shewing the estate which has come into their hands, the realization, management and disposition thereof, from the death of testator to the date upon which the account may be required. The powers usually delegated to us are unrestricted, and full and perfect protection is expected. In a word when the accounts are placed in our hands, as already stated, we are held responsible for their accuracy, not merely as to the accounting for actual receipts and payments, but as to the adjustment of capital and income, and the proper appropriation and distribution thereof.

In dealing with "Executors and Trustees' Accounts" there is one maxim I would particularly impress upon the students of this Society. It is one I have always adhered to myself, and found of great service, that is,—begin, continue, and end, your work in face of a Chancery suit. Imagine that such a contingency is about to happen, and that the result of your labour is certain to be put to the test. If you take an interest in your work in general, and in the matter you may have in hand in particular, and value your own reputation, you will find that it will make you thoroughly feel your responsibility, and impel you to devote proper care and attention to the details of your work; and if ever a Chancery suit should occur in any trust in which you have had the conduct of the accounts, it will be difficult to estimate what trouble you may have saved, and what value your services may have been to the various parties interested.

The first duty of an executor after the interment of deceased (when it is the custom for the solicitor to attend and read the will in the presence of the various relatives and friends who may have attended the funeral), is to prove it; that is to say to obtain a grant of Probate to show evidence of his rights, although his actual right under the will begins at the date of decease. In order to obtain this grant he must ascertain the total amount of Personal Estate of which testator died possessed.

By Personal Estate is meant all the estate except Real Property, and is that which is subject to Probate. It includes:

Cash in house.
Household furniture and effects.
Stocks or funds of Great Britain.
Foreign stocks.
Leasehold property.
Rents of real or leasehold property due at death.
Rents of leasehold property since death to grant.
Life assurance policies.
Proprietary shares in public companies with dividends.
Money out on mortgage and interest.
Book debts.
Bonds and bills.
Notes and interest thereon.
Real estate contracted in lifetime of deceased to be sold.
Goodwill, stock-in-trade, farming stock.
Other personal property (not included in the above).

In the case of items upon which a value has to be fixed, a valuation is usually obtained from competent valuers. In that of stock and shares, which may be taken at the medium selling price of the day, it is well to have them vouched by a broker's certificate. When the whole of the personalty and its value has been ascertained, an account, with particulars, should be furnished to the solicitor acting for the executors, who will at once prepare the necessary forms and apply to the District Registry, in which testator resided, or in some cases the principal Registry for the Grant of Probate, and

pay the duty and fees chargeable thereon. Prior to the passing of the Probate Duty Act, 1881, the duty was computed on a scale which went by leaps and bounds, and the total amount was sworn under a certain figure which was the next leap above the actual amount.

By the New Act referred to, all estates without deductions for debts and funeral expenses that are under the value of £100 are exempt from duty, while those exceeding that sum, and up to £300, are liable to an even duty of 30s. Beyond £300 and up to £500, £1 for every £50, or fractional part of £50, from £500 to £1,000; 25s. for every £50, or fractional part of £50; and above £1,000, £3 for every £100 or fractional part of £100 to any sum. By the old Act no deduction was allowed for debts owing by deceased in the first instance and the duty had to be paid on the gross estate, and a return applied for afterwards—when the amount was sufficiently large to make it worth while—but under the new Act deduction is allowed for debts and funeral expenses on all estates exceeding £300 in value after such deduction.

As however an accountant is rarely called in at this early stage except in large and complicated estates. I do not propose to occupy your time by going into the necessary duties that might devolve upon you when employed for this purpose, for two reasons.

Firstly. It has been thoroughly dealt with in an able address on this subject by a member of the Birmingham Society, which I should recommend you to peruse if you have not yet done so, as you will find it fully reported in *The Accountant* of the 28th April last, and, Secondly. In the majority of cases that come into our hands in this district Probate has been obtained and the estate frequently carried on for some time before we are called in—in fact, in many instances before the necessity of employing an accountant has actually been realized.

I will, therefore, assume for my purpose this evening, that Probate has been granted, and the bulk of the estate realised (where directed to be) before the Accountant has been called in.

It will be found that perhaps few books have been kept by the executors—possibly only a cash book—showing actual receipts and payments—so as to have some record of the transactions, but no ledger, containing an account of the estate, which they have to deal with, or in which the entries of the cash book have been classified, so as to show the necessary particulars required to make up the residuary account, and also bank pass book, cheque book, and a batch of papers and receipts amongst which will doubtless be found a solicitor's bill. I mention the latter because it is usually one of the most useful documents in the parcel, as a perusal of it will invariably give you a history of the transactions of the trust, and throw much light on entries and matters which you will presently have to deal with.

With the materials which I have described, and the form which has been presented for probate which will be most likely be at the solicitor's office, and readily obtainable, you are required to raise a set of trust books, separating capital from income and classifying all receipts and payments in such a form as will enable the residuary account to be easily and accurately prepared.

Then comes the question, what books are necessary to be kept, so as to show a clear and concise account of the estate which has come into the hands of the executors, and the manner in which it has been dealt with, and what is the best method to adopt so as to present it in a clear, pithy, and simple form, at once to meet the requirements of the residuary account; and be such that executors—who are not professional accountants—may be able to refer to, and understand for themselves, without having to ask constantly for explanations.

It seems to me that this is what is required, and the simpler accounts are the better, whether we are dealing with trust, or any other, accounts, provided they contain all that is necessary to attain the object for which they are designed.

There are some members of our profession who believe in showy, elaborate, systems of accounts, but I must confess that I do not belong to that class. The system therefore which I have always adopted and found sufficient for all purposes hitherto, is a simple one, and one which I think will commend itself to your approval.

The books required are two in number, cash book and journal in one, and ledger.

In some cases the word journal would fully describe the first of these, although it will be found convenient to keep it in the form of a cash book, as executors rarely keep cash in hand if they are wise, most of their receipts being paid direct into the bank, and most of their payments being made by cheque, which means crediting the account on which the receipt is derived and debiting the bank, or debiting the account on which the payment is made and crediting the bank, as the case may be.

In the first place it will be found convenient to raise the accounts in draft, as in the process of your work you are sure to meet with items requiring explanation before you can decide to what account they should be placed, or what proportion may be capital or what income; and if you do not also find it necessary, as you proceed, to make alterations and corrections in entries which you may have already made, you will indeed be fortunate in having a trust committed to your care, in which the information in your possession is unusually complete and straightforward. For this purpose two ordinary cheap books with card or paper backs—both ruled alike, namely, in the form of an ordinary cash book with double cash columns—will be found most convenient, one for the cash book and journal, and the other for the ledger. This form will be found very suitable for the ledger, as it will afford you ample room to detail full descriptive particulars of the entries, which in trust books is indispensable, as well as separate cash columns for income and capital. The latter in the case of investments and personal accounts of settled legacies enables the capital and income to be dealt with separately in one account, and so obviates the necessity of having two accounts, and secures the convenience of having the whole matter in respect of an investment or settled legacy before you at one opening.

Having obtained these books, you will find it of great service and a saving of much time and trouble afterwards, if you carefully peruse the Will and enter a short abstract of its provisions and dispositions on the fly-leaf of one of them, in addition to such particulars as the date of the will, date of death, date of grant of probate, at what amount sworn, the names and addresses of the executors and trustees; and where there are legatees under age not coming into the full benefit of their legacies, until they have attained their majority, the dates of their respective births, so that in case of a long trust in which in all probability you will be entrusted with an annual audit of the accounts, you may not lose sight of these matters, but have all the information required readily at hand, without time after time having to wade through the legal phraseology of these sometimes lengthy documents, which must of necessity be the case where some course of this description is not adopted, as no professional man in the multiplicity of business which passes through his hands can reasonably expect to commit to memory from year to year the variety of provisions contained in all the wills regulating his trusts.

When you have done this, and carefully looked through the batch of papers to which I have alluded, you will find yourselves tolerably well acquainted with the leading points of the matter in hand, have a very fair idea of the framework of your task, and be ready to commence raising the necessary entries for the basis of your accounts.

You first ascertain if the various items of the estate returned in the form for probate are accurate, and in case any difference should arise in consequence of information

which lapse of time may have revealed, or from any other cause, you may make a note of it.

You then commence your cash book and journal with entries of the personal estate, first crediting capital and debiting the various accounts of which it is composed in such order as you propose to open them in the ledger, capital account being the first.

There is no hard and fast line regulating the order in which they should be arranged, but I have always found it convenient to adopt, as near as circumstances will permit, the order in which they appear in the form supplied by the Inland Revenue for residuary account, as by so doing the latter account and the schedules required to accompany it can be very quickly prepared from the books; and in case any action or suit is instituted against the executors, in which event this account is usually taken as the basis of operations, its connection with the books and subsequent dealings with the estate are easily traceable.

I do not propose to occupy your time by going through the list comprised in this account in detail, as the form is readily obtainable and an examination of it will at once supply the details required.

When the journal entries setting forth the personal estate have been made, and posted to the respective accounts in the ledger in the order referred to, you will then have got a fair start, and the capital account will show the total personal estate of which the testator died possessed. If this agrees with the amount sworn to for probate, or at any rate does not exceed it to such an extent as to render the executors liable to payment for further duty, well; but if, on the contrary, it exceeds the amount so much as to show that insufficient duty has been paid, you should at once communicate with the solicitor, in order that he may take the necessary steps to pay the additional duty, and avoid any trouble or complication which might arise with the Inland Revenue authorities on the production of the residuary account.

Having so far proceeded, it is then necessary to complete the capital account by making the entries through the journal of real estate, and any other estate, not included in the above.

And although the real estate may be specifically bequeathed, it is always well to pass it through the books by debiting real estate and crediting capital, and when you appropriate the estate, debit capital and credit the legatee, and debit the legatee by a transfer from real estate account, which will close the transaction. By adopting this course the books will show the disposition of the whole estate of which the testator died possessed, whether personal or real.

Real estate, as you are aware, is chargeable under the Succession Duty Act, and is not brought either into the probate or residuary account, unless directed to be sold, in which case it becomes liable to payment of residuary duty and must be included in the residuary account.

I now assume that the whole estate, real and personal, of which the testator dies possessed, has been entered with full descriptive particulars in the cash book and journal, and that the values inserted are either the amounts actually realized or vouched by valuations and certificates of competent authorities; that the entries have been duly classified and posted to accounts opened in the ledger with each investment in the order I have indicated, and that all the entries of capital as distinct from income, have been entered in the outer or capital column in the ledger and those of income in the inner or income column. I assume that the date which has been affixed to all these entries is the date of the death, and that all rents and income due and accrued at death have been apportioned, as if accruing from day to day, and treated as part of the capital estate in accordance with the Apportionment Act, 1870; and that the books now contain an account of the whole of the assets of the testator, and show exactly the estate which the executors have to deal with.

The next thing to be proceeded with is the dealing with the estate, which of course comprises the transactions of the executors, and as it consists entirely of receipts and payments, it will appear in the form of a cash account, the entries being made in the order of date in which the transactions are effected.

The first entry will be the cash in the house brought from the previous journal entries in lieu of posting to the ledger, then following on the debit or receipt side, will come sums received in payment of book debts, proceeds of shares and other investments realized, loans repaid, &c., and the like which are capital realized, also rents, dividends, interest, &c. received, which are income and cheques drawn on the bank, which in reality are receipts from the bank, of moneys drawn out to discharge payments, and will be balanced by corresponding entries on the credit or payment side.

On the credit side will appear all payments and disbursements made by the executors in discharge of debts due by deceased, funeral and testamentary expenses, duties and payments into bank, &c.

Vouchers should be produced for all these payments, and where they contain items incurred previous to death, as well as those incurred subsequently, such items should be carefully separated and classified, so as to insure their ultimate entry in the right account.

The classification under which these items are required, will be found under the head of payments in the printed form supplied for the residuary account, and are as follows:

1.—Probate and administration, which includes the duty and fees payable on the grant of probate.

2.—Funeral expenses, which includes the coffin, hearse and coaches, interment fees, gravestone or monument, family mourning, &c.

3.—Executorship expenses, including valuation fees, law costs, accountants' charges, travelling expenses. cheque books and the numerous expenses incident to the execution of the trusts.

4.—Debts on simple contract, comprising debts owing by the testator, rent, taxes, wages, &c.

5.—Debts on mortgage (if any) with interest due at death.

6.—Debts on bonds and other securities, &c.

7.—Pecuniary legacies.

Accounts should be opened in the ledger under these headings following those already opened, and the various payments previously and correctly classified in the cash book duly posted to them respectively.

In posting the various entries from the cash book to the ledger, I would here observe that care must be taken to post all sums received on account of income, such as dividends on shares, interest on mortgages, rents on properties, &c., to the respective accounts opened with these investments in the ledger, in the inner or income column, as well as all payments for repairs, insurance, &c., that may be made on account of the properties, which, with very few exceptions, are chargeable against income.

We will now suppose the cash account to have been duly completed, and extended for the term of one year from the date of death, and that the year of grace allowed to executors for realizing the estate having expired, they are anxious to pay the pecuniary legacies, and make a division of the estate, where such division is directed, or pay over the income to the life tenant, where such a provision exists. So far the books contain the whole of the estate which has come into the executors' hands and the income received during the first year of their administration. They also contain the paymeuts which have been made in discharge of liabilities and expenses attending the trust. All receipts and payments have been carefully classified and posted to the ledger, a trial balance has been taken and the correctness of the posting verified. A voucher has been obtained for every payment and carefully arranged and preserved so as to be ready and in order to accompany the schedules to be furnished with the residuary account if required.

It will now be necessary to make closing entries through the journal transferring the several accounts under the head of payments, already referred to viz., probate duty, funeral expenses, executorship expenses, debts. &c., &c., to the debt of capital account. It will also be necessary to transfer to the debit of this account any deficiency that may have arisen in the realization of investments, &c., or property previously taken at valuations, as well as to place to the credit of the same account any excess that may have been realized over and above such valuations.

When all these entries have been made, a balance should be struck and brought down, which in the event of all the debts having been paid, liabilities discharged or provided for and assets realized, will be the nett amount of estate applicable to legacies and bequests. In cases where there is still a portion of the estate unrealized and debts outstanding, a reserve should be made equal to the amount at which such items have been valued in the accounts, and may be carried forward as a balance only to be divided when realised. In the event also of an annuity for life being bequeathed, either a sum should be separately invested, to produce the amount of such annuity, or if paid out of the income of the estate a sufficient portion of the capital should be reserved out of the residue to cover it before division. Matters of this description, and any special matter of the nature of a contingent liability, which often happens, having been duly provided for, so as to protect the executors ftom parting with any estate not absolutely ascertained by realization, you may proceed to apply the balance as directed by the will.

First will come pecuniary legacies, if any, for which any entry should be made through the journal, debiting capital, and crediting pecuniary legacies' account, or each legatee in a separate account, if you prefer it, which account or accounts will be closed when the actual payment is made, by posting the cash to the debit. When such legacies are bequeathed duty free, it will also be necessary to provide for the duty in addition to the legacy, such duty to be calculated on the amount of the legacy bequeathed, in accordance with the degree of relationship which the legatee bears to testator. Husband or wife are not subject to any duty.

To children and their descendants, or to the father or mother or any lineal ancestor of deceased, or to the husbands or wives of any such persons, it is one per cent. To brothers and sisters of deceased and their descendants, or to the husbands and wives of any such persons, three per cent. To brothers and sisters of the father, or mother of the deceased and their descendants, or the husbands and wives of any such persons, five per cent. To brothers and sisters of a grandfather or grandmother of deceased and their descendants, or to the husbands or wives of any such persons, six per cent. To any other person ten per cent.

It is also provided that where any legatee shall take two or more distinct legacies or benefits under any will or testamentary instrument, which together shall be of the amount or value of £20 each, such legatee shall be charged with duty, although each or either shall be separately under that amount or value.

All legacies where the total amount is under £20 are exempt from duty.

When the pecuniary legacies and specific bequests have been duly provided for, the balance will be the residue of capital.

It now remains to close those accounts relating to income, which are the sums placed to the credit of the various investments for dividends, interest, rents, &c., less the proportion accrued at death, which has been already posted to the debit in the first entries made in the journal of testator's estate at death.

The balance is transferred through the journal by debiting these accounts respectively and crediting income account.

The books now contain in a concise form, all the information requisite to complete the residuary account, and the schedules required to accompany it, and it will be well to make out a statement of affairs showing such particulars along with the schedules as will enable the solicitor to fill up the form in a few minutes.

It will be necessary to show what property has been converted into money, and the date of such conversion, as separate columns are provided for money received and property converted into money; and for the value of property not converted into money. In the latter case, the value of the property at the time the account is rendered is required, and inventories and proper valuations must be produced, so that care must be taken to ascertain whether any variation has arisen since the accounts were opened and to adjust them accordingly. The shares not converted into money are to be valued at the medium price of the day on which the account is dated, and if there be shares in many companies, it may be convenient to insert the total amount or value in this account, and annex a schedule of the particular shares. When the various amounts are entered in the account under the respective headings therein required, the total of the first column, in which all property converted into money has been entered, is carried out into column No. 2 and cast up with it, the total being the total of property.

We now come to the deductions for payments, which include probate duty, funeral expenses, executorship expenses; debts under three distinct headings, viz.: simple contract debts, mortgage ditto, and those on bonds and other securities, and then pecuniary legacies. A schedule of the debts signed by the executor or administrator is to be annexed, and the particulars of any other lawful payments, and of the funds and other securities purchased, and inserted with the date of such purchase. These deductions are entered in an inner column and the total carried out, and deducted from the total property, leaving the nett amount of property to be carried forward to the next page of the account, in column No. 3, in which must be inserted and added the accumulations of interest, dividends, rents, &c., from date of death to date of account, classified in the manner therein described. From this total should be deducted payments out of interest on mortgages, bonds, legacies, &c., payments on account of annuities and other payments (if any) comprising expenses incurred in the management of the trust estate, and chargeable against income and a balance again shown. Then any deductions from residue should be taken, including debts still due from the estate (if any) and money retained to pay outstanding legacies. When the account has been carefully drawn in the manner described, the balance will be the nett residue, which, after further deducting any portion thereof not liable for duty or for which duty is paid on separate receipts, is the amount upon which duty is chargeable. The residuary account in this district is usually passed by the solicitor, but if the accountant is to be of any service in furnishing the necessary particulars, it is requisite that he should be thoroughly acquainted with the form in which those particulars must be presented.

By the Probate Duty Act, 1881, the residuary account for payment of the one per cent. duty on residue, has practically been abolished, and I have perhaps gone more fully into the matter of the residuary account than some of you might deem necessary, but as many estates will yet come into accountant's hands in which the account will have to be furnished, it is well that you should be thoroughly conversant with its requirements.

I have thus far endeavoured to give you a brief sketch of what is required to be done in the preparation of executors' and trustees' accounts. I have not, by any means, exhausted this very comprehensive subject, as it would be futile to attempt to do so in the short space of one paper. I hope, however, I have succeeded in giving you some idea of the broad principle which should govern them, by illustrating a simple, straightforward case, and referring to some of the

general duties and responsibilities attaching to this branch of the profession.

You will, however, in the course of experience, meet with many originalities, and matters requiring special treatment: as you will rarely find two trusts alike.

You may be well acquainted with the law relating to the general principles of the duties of trustees, and the accounts to be kept by them, but in all cases the will is paramount, and its directions must be closely complied with. And, as it may be almost as truthfully said of wills as of faces that there no two alike, it requires much judgment and common sense, in addition to a knowledge of figures, to work out equitably and to a successful issue, the various crotchets and dispositions which are often evinced in these interesting documents.

I must now draw my paper to a close, as I feel that I have occupied your time sufficiently long, although I am aware that I have left many important matters relating to my subject unintroduced.

In conclusion, I will simply repeat and supplement what I have already hinted at:—That in addition to a knowledge of the law and figures affecting the accounts of executors and trustees, you must expect, as trust after trust comes into your hands, to have to grapple with, and decide upon, questions which have never arisen before, and you must be prepared to exercise such judgment and foresight as will enable you to comprehend the exact nature of the position, and deal with it promptly.

You may read all the books in the world on this, or that, method of keeping accounts, and be acquainted with all the elaborate theories and systems in existence, but if you wish to be useful and serviceable to your clients, and succeed in the sphere of life which you have chosen, you must also be practical, patient, persevering, and accurate, both in principal and detail, and if you possess these qualities in conjunction with that intuitive capacity for accounts which makes you love your work and wade through its dry details with interest, you will not only be a credit to the profession to which you are attached, but a benefit to the community at large.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

Intermediate Examination, December, 1883.

BOOKKEEPING.

Question 1. Add up tabulated sheet which will be presented.

Question 2. What is the "Cash Book," and what should it show at any time?

Answer. The cash book is a principal book of account; it should record all transactions of a cash nature. In the term cash is comprised bank receipts and payments. It should at any time show the amounts of cash in hand and at bank.

Q. 3. What is the Journal?

A. The journal is the other principal book of account, and is used to record all the transactions, other than cash. It is a generic term and in many cases is replaced by sectional books such as bought book, sold book, bills book, adjustment book, etc., which books are books of original record.

Q. 4. What is the "ledger," and what should it show at any time.

A. The ledger is an indiced analysis or analysed index of the traders business transactions. It should show (1) the position of the trader with his debtors and creditors (called personal accounts). (2.) The various subdivisions of the traders own account, such as wages, goods bought and sold, trade charges, &c., (called nominal accounts). (3.) The private accounts of the trader, such as capital, drawings, &c.

For Answer 5 see last page.

Q. 6. When the above bill was received accepted, the Birmingham Gun Company, Limited, remitted it to John Jackson, who paid it to Frederick Johnson on the 10th December, 1883. Set forth in tabulated form how it should appear in John Jackson's Bill Book.

A. 6.

BILLS RECEIVABLE BOOK.—John Jackson.

No. of Bill.	When Received.	When Dated.	From Whom Received.	On whom drawn.	By whom drawn.	Where payable.	Time.
1	4th December 1883.	1st December 1883.	Birmingham Gun Company Limited.	Aldershot Ordnance Company Limited.	Birmingham Gun Company Limited.	London and Westminster Bank Limited, Lothbury, E.C.	Two months.

Due date.	Amount. £	s.	d.	How disposed of.	Lr. fo. in.	Lr. fo. out.	Remarks.
4th February, 1884	1,000	0	0	Frederick Johnson.			

Q. 7. Set forth in tabulated form how it should appear in the bill book of the Aldershot Ordnance Company, Limited.

A. 7.

BILLS PAYABLE BOOK. Aldershot Ordnance Company, Limited.

No. of Bill.	Date of acceptance.	Date of Bill.	Name of the Drawer.	Name of acceptor.	Where payable.	To whom.
1	2nd December 1883.	1st December 1883.	Birmingham Gun Company, Limited.	Aldershot Ordnance Co. Limited	London and Westminster Bank, Limited.	John Jackson.

Time.	Due date.	Amount. £	s.	d.	Lr. fo. out.	Cash Bk. fo.	Remarks.
Two months.	4th February, 1884.	1,000	0	0			

Q. 5. As on 1st December, 1883, prepare for the Birmingham Gun Company, Limited, a Bill of Exchange at two months, in favour of John Jackson, upon the Aldershot Ordnance Company, Limited, for £1,000; accept and make it payable at the London and Westminster Bank, Limited, Lothbury, London, E.C. State what is the proper stamp.

A. 5.

10 Deansgate, Birmingham.
1st December, 1883.

Two months after date pay to John Jackson, Esq., or order, the sum of One thousand pounds for value received.

The Birmingham Gun Company, Limited.
Edward T. Jones, Secretary.

To the Aldershot Ordnance Company, Limited,
25, Cannon Street, London, E.C.

The bill must have the acceptance written across as follows, "Accepted, payable at the London and Westminster Bank, Limited, Lothbury, London, E.C. Aldershot Ordnance Company, Limited.

William Smith, } Directors.
Edward Jones, }
Thomas Brown, Secretary,"

and must bear a Ten shilling stamp.

Q. 8. T. Wilson bought from J. Thompson, 100 tons of iron, at 50s. per ton, less 2½ per cent. discount. Prepare invoice.

A. 8.

Bristol,
17th December, 1883.

Mr. T. Wilson.

Bought of J. THOMPSON,
Iron Merchant.

	£	s.	d.
100 Tons iron at 50s.	250	0	0
Less 2½ discount	6	5	0
	243	15	0

Q. 9. Show how the foregoing transaction should appear in their respective ledgers. Personal accounts only.

A. 9.

T. WILSON'S LEDGER.

Dr. J. Thompson. *Cr.*

1883.		£	s.	d.	1883.		£	s.	d.
17th Dec.	To discount	6	5	0	17th Dec.	By iron	250	0	0
31st „	Balce. forwd.	243	15	0					
		£250	0	0			£250	0	0
					1884.				
					1 Jan.	By balce. down	243	15	0

J. THOMPSON'S LEDGER.

Dr. T. Wilson. *Cr.*

1883.		£	s.	d.	1883.		£	s.	d.
17th Dec.	To goods ..	250	0	0	17th Dec.	By disct. ..	6	5	0
					31st „	By bal. fowd.	243	15	0
		£250	0	0			£250	0	0
1884.									
1st Jan.	To Bal. down	243	15	0					

Q. 10. A. and B. entered into partnership on 1st June, 1883. A. paid in £10,000 and B. £5,000 to Bullion & Blount, their bankers. Their first cash purchase was business premises at £7,000. They are now at the end of six months' trading, and their sales have been £41,000, all still owing for, subject to 2½ per cent. discount, Their purchases and trade expense have been £39,000 net, none of which have been paid for. The stock in hand is now valued at £3,000. Each partner is entitled to 5 per cent. interest on his capital, and subject thereto they share the profits equally.

(i.) Prepare ledger accounts only.

(ii.) Prepare balance sheet as on 1st December, 1883.

1 *Dr.* A.—CAPITAL ACCOUNT. *Cr.*

1883.		£	s.	d.	1883.		fo.	£	s.	d.
Dec. 1,	To balance forward	12,050	0	0	June 1,	By cash	1	10,000	0	0
					Dec. 1,	„ interest on capital	8	250	0	0
					„ 1,	„ Profit and Loss, half years profit.. ..	8	1,800	0	0
		£12,050	0	0.			12,050	0	0.	
					Dec. 1,	By balance down		12,050	0	0

2 *Dr.* B.—CAPITAL ACCOUNT *Cr.*

1883.		£	s.	d.	1883.		fo.	£	s.	d.
Dec. 1,	To balance forward	6,925	0	0	June 1,	By cash	1	5,000	0	0
					Dec. 1,	„ interest on Capital	8	125	0	0
					„ 1,	„ profit and loss, half years profit	8	1,800	0	0
		£6,925	0	0			£6,925	0	0	
					Dec. 1,	by balance		6,925	0	0

3 *Dr.* BULLION AND BLUNT, BANKERS,—(IF BANKING ACCOUNT POSTED TO LEDGER). *Cr.*

1883.		fo.	£	s.	d.	1883.		fo.	£	s.	d.
June, 1,	To cash	1	15,000	0	0	June 1,	By cash	1	7.000	0	0
						Decr. 1,	„ balance forward		8,000	0	0
	£15,000	0	0.								
Dec. 1,	To balance		8,000	0	0		£15,000	0	0.		

4 *Dr.* PURCHASE OF PREMISES. *Dr.*

1883.		fo.	£	s.	d.
June 1,	To cash	1	7,000	0	0

5 *Dr.* GOODS ACCOUNT. *Cr.*

1883.		fo.	£	s.	d.	1883.		fo.	£	s.	d.
Dec. 1,	To purchases	6	37,000	0	0	Dec. 1,	By sales	7	41,000	0	0
„ 1,	„ profit and loss	8	7,000	0	0	„ 1	„ stock		3.000	0	0
		£44,000	0	0.				£44.000	0	0.	
„ 1,	To balance		3,000	0	0						

6 *Dr.* SUNDRY CREDITORS. *Cr.*

1883.		fo.	£	s.	d.
	By Sundries	5	39,000	0	0

7 *Dr.* SUNDRY DEBTORS. *Cr.*

1883.		fo.	£	s.	d.
Dec. 1,	To Sundries..	5	41,000	0	0

(*To be continued.*)

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THE

Accountants' Students' Journal.

A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

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NOTICE.

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THE

Accountants' Students' Journal.

MARCH 1, 1884.

ACCOUNTANTS' STUDENTS' SOCIETIES.

Among these very useful institutions, to Birmingham must be given the honour of being pioneer in the movement, and Nottingham is the latest addition to the ranks. Perhaps it will not be deemed out of place to give a brief *resumé* of their proceedings from the commencement, and readers can then see the usefulness of their operations, and the desirability of enrolling themselves as members where they have an opportunity of so doing.

We give them in the order in which they were formed :—

(1) Birmingham. This society was inaugurated on the 5th Oct., 1882, when the President, Mr. E. Carter, F.C.A., delivered a general address on Accountancy. Since then lectures have been given by Mr. Gibson, on the Companies' Acts; Mr. Slocombe, on Auditing; Mr. W. N. Fisher, on Trustees and Liquidators; Mr. Caldecott, on Executors' and Trustees' Accounts; Mr. H. S. Smith, on Interest; Mr. L. J, Sharp, on Bankruptcy; Mr. Carter, on How to Open a Set of Books; and Mr. A. Edwards, on Bills of Exchange.

(2) Manchester. The inaugural meeting was held on the 12th February, 1883, when Mr. A. Murray delivered the usual general address, and since that date Mr. Trevor has lectured on Book-keeping and Auditing; Mr. Carse, on The Companies' Acts; Mr. Guthrie, on Depreciation and Sinking Funds; Mr. Piggott, on The Science of Insurance; Mr. Thomas, on Death Duties—Old and New; Mr. Brooks, on Building Societies; and the President (Mr. Murray) on Income Tax Practice. In addition, a discussion was held on Mr. Guthrie's paper, on Depreciation and Sinking Funds.

(3) In Liverpool, Mr. Chalmers, as President, delivered his inaugural address on the 28th February, and since then members have been favoured by lectures on the following subjects :—Arbitration, by Mr. Cariss; Bankruptcy, by Mr. Sheen; The Relation between Accountants and their clients, by Mr. Banner; and Balance Sheets by Mr. Jackson.

(4) London, which usually takes the lead must in this instance, put up with fourth place, the inaugural meeting. under the presidency of Mr. F. Whinney, being held on the 24th April, and the following gentlemen have given lectures :—Mr. Wellon, on the Liquidation of Estates, otherwise than in Bankruptcy; Mr. Pixley, on Auditing; Mr. Ellerman, on the Companies' Acts; Mr. Chadwick, on the Duties of a Professional Auditor; Mr. Slater,

on Arbitrations and Awards; Mr. Goode (for Mr. Ringwood) on Partnership Law. A debate has also been held on the Duties of an Auditor to a Public Company.

(5) Bristol. The inaugural meeting of this society was not held till the 27th September last, under the presidency of Mr. Clarke, and the only further business, so far reported was of a mock creditors meeting in October.

(6) Sheffield. Mr. Short presided at the inaugural meeting on the 3rd October, and lectures were delivered by Mr. Shuttleworth on Receivers, and Mr. Hawson, on Executors and Trustees' Accounts; and lastly

The inaugural meeting of the Nottingham and Midland Counties' Accountants' Students' Association was held on the
when the president, Mr. Mellors, delivered an address.

Other meetings may have been held in the earlier stages of the movement, which have not been reported in this paper, and meetings have of course been held since, which we have not yet had time or space to give details of, but full reports of all the proceedings will be found in the numbers of this paper issued between the 1st May, 1883, and 1st February, 1884.

As this paper is the only one giving full reports of these meetings, we think some concerted action should be taken by the committees of the various societies to arrange for the transmission of the manuscript of all lectures delivered to them, for due insertion in our columns; and further, we are willing to arrange, with the due consent of the authors and a guarantee of the various societies to take a minimum number of copies, to re-publish in pamphlet form, uniform in size and style, all lectures which so appear; these could afterwards be bound up, and form a handy, useful, and instructive volume.

Now that Accountancy, is on its trial before the commercial world, it behoves all persons qualifying to enter its ranks to make redoubled efforts and strain every nerve to so fit themselves for their future duties, that when they enter the ranks of the noble army of "Martyred Accountants," as a correspondent to our contemporary, *The Accountant*, suggested they should now style themselves, their knowledge of their duties and proper qualifications for the task they have undertaken may be patent to all the world. In no way is information more agreeably and speedily acquired than by lectures and discussions thereon, and we advise the committees of these societies to arrange for lectures and discussions on subjects, as varied as possible, which will be useful to students preparing for examination.

BOOK-KEEPING—*Continued.*

The Indirect System.

The eighteen volumes in question contain more particulars than the two books in which their respective contents are condensed, and therefore, while they remain books of original record, they are not books of account, but only books, which *supplement* the information contained in the principal books of account, and to which they are *subsidiary*. They, are therefore, described as "supplemental" or "subsidiary" books under the indirect system. The process of balancing under this system is the same, except that, instead of obtaining monthly totals, we have to deal with daily ones for our contras, and we have further to contend with the disadvantages of duplication and increase of labour and increased difficulty in tracing the original record of a transaction.

The Combined System.

Let it now be assumed that the cash book is divided into two volumes as mentioned under the *direct* system, and that the postings are made from the entries therein contained, while, the journal being divided as mentioned, under the *indirect* system, the entries contained in the bought and sold books are posted direct, and those contained in the remaining books are collected and condensed in another book, whence they are posted. We should then have the cash section and the goods section, as books of original record

and of account, they being sectional or divisional books, while the remaining volumes would be books of original record, but not of account, which books would be supplemental and subsidiary to the volume used in their stead, for posting purposes.

Another System.

We purpose, later on, dealing with still another system, but before so doing, it is necessary to complete the work relating to the simple forms of double entry.

Balancing the Books.

When all the postings are completed, it is necessary to ascertain whether the books (ledgers) balance.

In order to do this, every account must be cast up on both sides, and the result dealt with in one of two ways, that is, either we must put down on sheets of paper the total debit and the total credit of each account, in distinct columns, until we have exhausted the ledgers, by treating each account in like manner; or we must deduct the smaller total from the larger, and put down the difference thus appearing in each account, in the debit or credit column of such sheets, ignoring those accounts on which no balance remains.

The former method is called a "Trial casting," the latter a "Trial balance."

Each method has its advantages and its disadvantages, to which reference will be duly made. It must, however, be borne in mind, that under the modern methods the *contras* of each are posted as they are in the journal entries, so that when we want to *balance* we have to regard the cash book as part of the ledger, because we obtain by the balances shown in the cash book, as in hand, or overdrawn, the equivalent of the contras required to maintain a perfect balance. For instance, if we have received £10,000 and paid £8,000, it is evident that the receipts would be carried to the credit of the apportionate accounts in the ledger, and the payments to the debits of the apportionate accounts. Our ledger, therefore, would not balance there, and would be £200 more to the credit than to the debit, and that £200, we find, on turning to the cash book, as in hand (that is a debit). Under modern methods, therefore, the balancing would, in this instance, come out as follows:—

Ledger Debits.		Ledger Credits.
£8,000	.. .. ..	£10,000
Cash in hand £2,000	.. .. ..	
£10,000		£10,000

Whereas, under the old-fashioned method of literally giving a debit for each credit and *vice versa* we should find—

Ledger Debits.		Ledger Credits.
Accounts .. £8,000	..	Accounts £10,000
Cash contras £10,000	..	Cash contras £8,000
£18,000		£18,000

Trial Balance.

This is the more usual method, and consists, as already stated, of taking out only those accounts on which a balance remains, ignoring those which are closed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

At a special meeting of the council, held at the offices of the Institute, 3, Copthall Buildings, E.C., on the 6th February the following applicants were admitted Associates :—

Batson, Charles Richard Turley, Liverpool, London, and Globe Chambers, Birmingham.

Barker, Harry, clerk to Henry Ball, 149, Palmerston Buildings, Old Broad Street, E.C.

Brown, Robert Walter. clerk to Grey, Prideaux & Booker, 48, Lincoln's-Inn-Fields, W.C.

Godfrey, Henry, clerk to F. B. Smart & Co.. 53, Cannon Street, E.C.

Hyland, Frank, clerk to James & Edwards, 66, Coleman Street, E.C.

Jones, Henry John, clerk to John Jones, 41, Foregate Street, Worcester.

Storer, Edwin, clerk to Halliday, Pearson & Co., 20, Booth Street, Manchester.

Woodward, Harry Frank, clerk to Carter & Carter, 33, Waterloo Street, Birmingham.

BRISTOL ACCOUNTANTS' STUDENTS' ASSOCIATION.

EXECUTORS' AND TRUSTEES' ACCOUNTS.

The fourth general meeting of this Association was held at Albion Chambers, Bristol, on Thursday evening the 13th of December, 1883, Mr. Frank N. Tribe in the chair.

After the formal business of the meeting had been completed, the vice-president, (Frederick A. Jenkins, Esq., F.C.A.), read the following paper upon "Trustees' and Executors' Accounts."

It may appear at first sight rather superfluous and rather presumptuous to attempt to submit anything to you this evening on the subject of Executors' and Trustees' Accounts, after the very comprehensive and exhaustive paper read before the Birmingham Accountants' Students' Society, by Mr. Holt Caldicott, on the 3rd of April last, and which is fully recorded in the *Accountants' Students' Journal* of August and September, when your indefatigable secretary, much to my own astonishment, succeeded in extracting a promise from me to take this part in the work of your society. I was not aware that a lecture had already been delivered on this subject, or I should have hesitated a good deal before fixing upon it for myself, as it certainly appears to me that after Mr. Caldicott's paper, very little more can be said on the general principles which should guide us in the management of estate accounts, as they are ordinarily brought before us; but, inasmuch, as no two estates present precisely the same features, and therefore all cannot be treated in exactly the same way in working out their details, I have thought it would be interesting and useful if we were on the present occasion, instead of travelling over ground already well coursed, to assume that the paper to which I have referred, has been carefully read and studied, and to direct attention to one or two side issues connected with this branch of our profession, which from time to time force themselves upon our attention in the prosecution of our duties as Accountants to Executors and Trustees.

The little time I have had at my disposal, prevents my presenting this subject to you at any great length; but this will be to your advantage, as it will give a better opportunity for discussion afterwards on any point which may be referred to or omitted. I should like, however, in the first place, to be permitted to supplement Mr. Caldicott's remarks on the best way of keeping executorship accounts, and to give the result of my own experience as to the most convenient form to be adopted in reference thereto.

Let us suppose then, that all difficulty in reference to the inventory and valuation for probate have been surmounted, and that we have before us a complete list of the property possessed by the testator at the time of his death. This list embraces personal and real estate, (that is assuming our testator to have been so fortunate as to possess both), and we shall therefore commence our ledger by opening two principal or capital accounts, to be called respectively "The Personal Estate" and the "Real Estate" account. On the credit sides of these accounts, we shall now enter all the testator's property of which we have obtained any information, and debit the respective personal accounts which will follow these capital accounts in the ledger. Money, mortgages, bonds, and securities of a fixed amount, will, of course, be entered at those amounts, and shares or stocks of a fluctuating value, can be put down at the price at which they were valued for probate.

It will be well to arrange all these different items, as well as the personal accounts, in the same order in which they appear in the form of residuary account, with which you will have hereafter to deal, as you will then have less trouble in filling up that account, or in preparing the schedules to accompany it. The next accounts to be opened still following the order of the residuary account, will be those relating to the payments out of the estate, such as probate duty expenses, funeral expenses, executorship expenses, debts and legacies, all of which are mainly composed of items posted from the cash book, the exception chiefly being specific legacies, which are simply transfers from the personal accounts, and legacies directed to be held in trust, the amount whereof is debited to the account of legacies, and credited to an account with the parties for whom it is held. The income accounts will now occupy our attention. In large estates it is very desirable to open separate accounts from the income derived from the various sources in the residuary account, crediting all income as it becomes due on each investment, and debiting the individual personal accounts therewith, Fxed interest due at specified times should be credited on the day it is due, but variable dividends can be more conveniently kept in proper order by crediting them on the day they are payable, and stating the period in respect of which they are due. All these several income accounts can be periodically—say once a year, on the anniversary of the testator's death—transferred to a general income account, and the balance be then divided and credited to beneficiaries, who may be entitled to it. Of course separate accounts will also have to be kept of income arising from investments specifically bequeathed, or on investments made for any special purpose as may be directed by the Will, and which income will be paid over from time to time to the proper recipient.

With the capital and income accounts thus arranged, no difficulty will be experienced in filling up the residuary account, and when that is done, and proper value put to all the various investments and securities, the individual personal accounts of the properties, can be debited or credited as the case may be, with any difference between the value as entered in the residuary account, and that appearing in the ledger, the same difference being debited or credited to the capital account to which it belongs, the figures in the ledger representing the value of the respective properties, will thus correspond with the value entered in the residuary account.

The totals of the various accounts of expenditure will then be transferred to the debit of the personal estate account, or to the real estate account, if any of the payments are properly chargeable thereto, and the ultimate balance of these capital accounts will both be carried to another account to be called the "Residuary Estate Account," the total of which, will thus be the same as the balance of the capital portion of the residuary account, the duty eventually paid on this amount will be debited thereto.

In carrying off the total of executorship expenses, or of any of the other accounts where all claims have not been discharged, it will be found convenient to transfer a sum sufficient to cover not only what has been actually paid up to that time, but also a reserve for outstanding debts, or an estimate for charges not yet ascertained. Any surplus thus provided for, will be carried down in the ledger to the credit of the account concerned, and any future payment will be charged against it.

If annuities are left by the Will, duty has to be paid thereon on a separate form, and the value of the life interest ascertained for that purpose, will be deducted at the end of the residuary account.

To make the ledger agree with this operation, a like sum should be retained to the credit of the personal estate account, before the transfer of the balance thereof to the residuary estate account—this reserve will be transferred to the latter account when the life drops, and the annuity comes to an end.

The income account kept in the way already suggested, will also readily show the figures to be inserted in the residuary account, and the duty paid on the balance of income will be charged to the general income account, which will, after the transfers from the various subsidiary income accounts, show the same balance as the income portion of the general account, with the exception, perhaps, of any interest, or cash in hand, which may have to be accounted for, but which may not have been actually earned by the estate, a red ink memorandum made in the ledger will explain this difference.

It will be observed that the object of the foregoing arrangement and treatment of the capital and income accounts, is, that the personal estate account may show the property in respect of which probate was originally granted at the value then attaching to it, and that the residuary estate account and income account may also show the exact amount on which duty has been paid—very much time and trouble will be saved in after years by one thus being able to identify the residuary account with the various accounts in the ledger.

Specific legacies should be brought into the personal estate account at the ascertained value for duty, and subsequently charged on the other side amongst the legacies, the specific legatee being, of course, credited by a transfer from the account of specific legatees, and debited by a transfer from the account of the property so specifically bequeathed.

The filling up of the various forms for paying annuity succession and other duties, is a simple matter, and one which a little careful study of a book like Corrie Hudson's Guide, to the payment of legacy and succession duties, will enable us to do without difficulty.

Applications for a return of probate duty on the ground of debts, (to a great extent rendered now unnecessary, owing to a deduction in respect thereof being allowed when probate is granted), or on the ground of an over-value of the estate in the inventory taken for probate, as well as for payment of duty on property, as discovered in the first place, are made on certain forms, examples of which, and instructions for filling up which may also be found in the book above referred to but these applications are frequently considered by the solicitor to come within the range of his duties, although, of course, the figures have to be supplied to him by the Accountant.

One word as to the cash book. This should be in the simplest form, and should contain the fullest particulars of every item, it is sometimes found convenient to keep all bank transactions in a separate column, so as to avoid the necessity of a bank account in the ledger, but I rather incline to the practice of discarding a bank column or ledger account altogether, merely entering all receipts and payments in proper order, whether passing through the bank or not, the balance of the cash book being then at all times composed of cash in hand, plus cash at the bank. Where—as it is in many, if not the majority of cases—all receipts are paid into the bank, and all payments are made by cheque, it is manifestly quite sufficient to treat the cash book in this way without having a bank account as well. If this latter plan be adopted, we can then keep all income items in one column in the cash book, and all capital items in the other, and thus be able to tell at any time what income there is in hand, or what capital remains uninvested, without having to refer to the ledger for this information. A cash book kept in this way is more readily understood by our clients, who are not always the best accountants.

We will suppose then, that up to this time the accounts have been kept in proper form, and the residuary accounts have been filled up and forwarded to the stamp office for examination and assessment. If we think any questions are likely to arise, which cannot well be answered by correspondence, it will be desirable to attend at Somerset House, and personally adjust the difficulties, but in any case, we must count upon some explanation being required, and it should be our aim to give it in a plain straightforward manner, which will tend very much to convince the authorities that the account is a *bonâ fide* one; experience, however, is necessary, not only to know how to answer these questions, but also how to render the account, so that unnecessary enquiries may be avoided.

When the residuary account is passed and all duties paid, it is generally considered that the executors' duties cease, and those of the trustees, who are, as a rule, the same people, commence; of course when the residuary estate is bequeathed absolutely to certain persons, and is payable to them at once, either wholly or in part, the executors have to make the division, taking care of course to provide for any legacy not yet payable, or for any liability which cannot yet be discharged; but, as a general rule, either the residuary estate is left in trust, or there are certain trust legacies which have to be taken care of, and it is now that the trustee's office begins, they have to see that the funds entrusted to them are properly invested, and it is their duty to pay over the income regularly to the proper parties. The accounts to be kept in relation to these trusts are of the simplest character, and we need not occupy any more time in considering them, except to say that clear statements should be made of income received and paid over of all variations in the investments of the trusts, and of all settlements and divisions of the capital monies, when the proper time arrives for parting with the fund. Happy is that trustee who is able to carry out the duties imposed upon him to the end, to the satisfaction of himself, and those whose interests he has been guarding, and happy is that accountant who has been privileged to help in bringing about a "consummation so devoutly to be wished."

We will now, if you please, look at some of those points arising out of the discharge of our duties as accountants to executors and trustees, which are called at the outset side issues. If we have any ambition at all, as I believe we all have, to excel in our profession, we shall not be content with the performance of accountant's duties, pure and simple, but we shall want to make ourselves acquainted amongst other things, with the legal bearings of the different questions connected with these duties; executors and trustees are beginning to find out that accountants who have had anything like a large experience in the management of estates, are able to speak pretty confidently with respect to certain events, which otherwise they might think it necessary to consult their solicitor upon. I do not for one moment wish to convey the idea, that we as accountants should attempt to do anything which would entrench upon a solicitor's functions, any more than that a solicitor should perform the duties of an accountant, we are glad at all times to be associated with solicitors in the conduct and management of estates, and it cheers us to know that they are beginning to recognize to a larger extent than formerly, the work of our profession—may this feeling still increase—but trustees are often guided by their accountant in determining not only when to avoid but also when to take legal proceedings, and it sometimes happens that for the want of a little sound advice on the part of the accountant, legal proceedings are deferred or have afterwards to be taken, which involve loss to the estate, and worry and anxiety to the trustees. The office of trustee in the majority of cases is a thankless one, important services rendered are very often totally unappreciated and unrewarded, and it is therefore of the highest importance that the utmost confidence should be felt in those whom they employ to assist them, who are expected as far as in them lies to protect the interests of all concerned. Let this be a fundamental rule from which there shall be no swerving. Carry out the instructions of the will so far as they come within your province in the strictest possible manner, let no individual interest or other influence induce you to advise the slightest departure from the path laid down by the testator. If real

doubt arises as to the construction of the will or any part of it, let the solicitor determine the right course, and then unhesitatingly follow it, but if there be no doubt, which experienced common sense would recognise do not be afraid of expressing your views and advising your clients to carry them out..

It may seem hardly worth while in this connection to refer to the subject of the investment of the funds of the estate you may be dealing with, as every one of us I suppose knows, or will soon find out, what investments are permissible by law in default of special directions given by the will or trust deed, but it is very often the case that estates come into our hands partially administered, and where investments have already been made, neither in accordance with the will, nor with the law, this arises not always from ignorance, but very often from a desire to benefit life tenants, by realising a larger income than could otherwise be obtained. This is not at all times a dangerous game to play, and our first step in these cases, should be, to do our utmost to get such a state of things rectified for the recipient of the income, as well as for the reversioner, it is emphatically a case of "heads I win tails you lose," for if an illegal investment should be successful, any profit made thereby goes to the estate; whereas, if it should prove unsuccessful, the trustees are liable to make good the loss. The trustee will, of course, have to brave the anger of the life tenant, who never sees what risk there can be in an investment which is so much to his advantage, and it is certainly a grievance that such an arrangement should be so rudely disturbed, but he can comfort himself with the knowledge that he has already had more income then he is legally entitled to, and be thankful to his trustee that he had not the shrewdness to employ an accountant in the first place, which would most likely have rendered such an illegality impossible. Caution should also be exercised where there is a very wide power of investment given by Will, as I believe it has been held, that even where an investment is left entirely to the trustees discretion, an investment made in any but securities authorized by law, shows a want of discretion; that, therefore the trustees are liable for losses consequent thereupon.

In this connection too, we may also notice directions in the Will to set apart funds to provide for annuities or other periodical payments, it it usual for such directions to be given, but in many cases they are not carried out, the trustees contenting themselves with investing the estate as a whole in the manner directed, and paying such annuities out of the general income, but if an accountant be in a position to advise, as he should be, he will see that a specific sum is invested to answer the purpose indicated. An action is at present pending on this very point. A testator bequeathed an annuity to his son, and ordered his trustees as soon as conveniently might be after his death, to invest a sufficient sum in either the public funds, mortgages, or railway securities, to provide for such annuity—this was done, but the annuity was paid out of the general income of the estate, the funds of which were otherwise properly invested.

In course of time the original trustees and the son died. By the Will the annuity then devolved on the son's widow, the fund itself being divisible amongst the children. On the widow's death, new trustees were appointed, of course on the usual assurances that they would have no trouble in the matter, as all was perfectly straightforward and simple; but they had scarcely entered upon their duties, when the widow's solicitors, who had been waiting for reasons of their own, until the death of the survivor of the former trustees, required them to create a special fund, and to invest the money in consols, to this the trustees objected, but at once bought secure railway guaranteed stocks—thus exercising the option given by the Will, and which, of course, required much less money to produce the annuity than a purchase of consols would have done. This did not suit the book of the solicitors who were acting for the widow and children, and the case has consequently to be fought out in the Court of Chancery. All litigation and consequent expense and anxiety would have been spared, if the Will had been strictly acted upon in the first place.

While speaking about the investments of an estate, it would be worth while to consider what are the duties of an accountant, with regard to satisfying himself that the investments have actually been made; this may appear to be a little outside his duties, but even here care and caution are necessary, as liability, or at all events, responsibility, may accrue. The following case will illustrate my meaning. Two trustees, and the only ones, of an estate, were also solicitors in partnership with one another, they were thus the trustees and the solicitors of the estate. One of the partners whom we will call No. 1, transacted all the business as acting trustee and solicitor, the other knowing practically nothing of the working of the estate, and doing nothing, except perhaps, occasionally signing cheques in the absence of his co-trustee and partner; the bank always honoring cheques signed by either alone, for "self and co-trustee." A firm of accountants were very properly employed from the beginning who kept the books, and acted generally under the instructions of No. 1. In the course of the administration of the estate, a sum of money came into the hands of No. 1, who paid it over to the accountants, and it was by them placed in the bank to the credit of the estate, they were then instructed by No. 1 to draw a cheque for a certain sum in a certain name, and were informed that it was for an advance on mortgage, the particulars of which were duly recorded in the estate books. No interest was, however, accounted for on this mortgage, although trustee No. 1, who had undertaken to collect it, was informed thereof from time to time. No suspicion whatever was entertained of any irregularity until a few years after when No. 1 died insolvent, it was then found that no such mortgage had ever been in existence, the money having gone in another way not connected with the estate. The other trustee denying all knowledge of the transaction, and rightly so too, declined to accept any share of the responsibility, and an action was brought to compel him to pay as the partner of No. 1, as well as his co-trustee. His contention was that all the instructions given by No, 1 to the accountants were given as trustee, and not as solicitor, relying upon the fact that letters written by the accountants to No. 1 were addressed to him personally, and not to his firm; and he also strongly insisted, and this was his chief defence, that if the correspondence and interviews were with No. 1 as the acting solicitor, and not as acting trustee merely, not only should all letters have been addressed to the firm, but that he should have been apprised by the accountants of all that was going on in relation to the estate, thus attempting to throw the responsibility upon them. The action was heard, and a decision, accompanied with remarks which completely cleared the accountants, was given against the surviving partner, who therefore had to pay. Now although the accountants were absolved by the verdict of the judge, the question is an important one, to what extent should an accountant claim to see the securities or vouchers of the estate. In the above case, the fact of the trustees being also the solicitors complicated matters, but in the other cases which I can call to mind it is a very usual thing for investments of mortgage, especially to be carried out entirely by the solicitors, and for the accountant never to see the deeds or anything connected therewith. If the trustees are aware of this, and distinctly understand how the investments have been made, and if periodical accounts are furnished to all of them, I presume the accountants can do nothing more; but if the investment is in any way left to the accountant with the solicitor, for the protection of the former he should satisfy himself that there is a proper voucher for the money thus invested, and he should also, if at all within his power, collect the interest direct from the mortgagor. It is only an act of justice to

ourselves that we should in every way guard against the possibility of any liability which would at once be thrown upon us if any accident should happen.

In many estates, which in course of time will come under your notice the testator will be found to have been at his death a partner in a business or carrying on business by himself. In the former case you *may* have, in the latter in all probability you *will* have, to make up the trade books, or in some way to satisfy yourselves as to what may be due to the testator therefrom. This requires knowledge of the workings and details of various kinds of businesses, and here the experience gained in the audit of mercantile books and accounts will stand you in good stead. Sometimes the executor is directed by the will to carry on the business for benefit of the family. In this case the accountant's help is invaluable, as frequently the executor is not practically acquainted with that particular knowledge of the business or with the best way of keeping its accounts. Ascertaining a deceased man's capital in his business at the time of his death also brings the accountant in contract with various kinds of articles of partnership, the clauses in which bearing upon the result of a partner's death being often of an ambiguous character.

I remember an instance, a few years ago, in which a testator died just after his firm had dissolved partnership; in fact just while the concern was being wound up; his two partners had over-drawn their accounts, so that the ultimate result was that the amount due to the deceased partner's estate, was represented by the two sums due from his partners to the firm. One of these two partners was insolvent, and the question arose, how his debt was to be treated. The accountants who were employed by the executors claimed that the debt being due to the firm, should be treated like any other bad debt, *i.e.*, borne by the two solvent partners in shares, proportionate to their interest in the business; but the other partner arguing from the somewhat vague construction of the clause in the articles of partnership bearing upon the point, and not clearly seeing the difference between a debt from his insolvent partner to the firm, which it was, and a debt due to the deceased partner personally, which it was not, contended that he could not be called upon to pay any portion of this loss, and that the whole should therefore be borne, by the deceased partner. He obtained an opinion of Counsel favouring his view, and the executors also obtained one in their favour (which appears to be the usual result in such cases) and there was no alternative but to go to the Court, which decided that the executor's view of the case was right, and an order was made on the surviving partner, to pay his share of the debt; the gain to the estate was I am afraid more than balanced by the costs of the action, which would never have been brought if a common sense business like view, had been taken of the situation in the first place.

The last side issue—if it can so be called—which we shall notice, is the very important one the remuneration of an accountant.

I perfectly agree with our President in his desire for some recognised legal scale of charges, and I anticipate that this will be one of the results of the very interesting specimen of a Trades Union which is now represented by the Institute of Chartered Accountants. Although of course the main object of this association is for the benefit of mankind at large, rather than that of its own members in particular, but however, this may be, there is no doubt that this question is at present in a very unsatisfactory state. How often is one asked the question, Will you be one of my executors? one's own innate modesty as a rule, prevents the proper reply "yes, if you will make it a matter of business," we should be regarded under such circumstances as sordid wretches with no bowels of compassion or soul above pounds, shillings, and pence, the consequence of which is, we are often left with, it may be, a complicated estate to wind up with nothing to recoup us for our time and trouble, except perhaps, a mourning ring, and a vote of thanks from the family—of course I do not include in these remarks, those cases where we are actuated by sincere friendship in accepting trusts, and where we consider it an honour to be asked to undertake them—and an expression of confidence which we shall only be too glad to prove has not been misplaced. These cases do occur and we hope they will continue to do so but I refer to instances where intending testators have no idea of what is involved in the duties they wish us to undertake. They cannot have been executors themselves or they would be less inclined to impose these burdens on those whose time is their money, and the case is not altogether met, when a provision is made in the will that professional executors shall be paid; for if the accountant's bill is objected to by an irate or hostile beneficiary he may experience the pleasure of having some of it disallowed on the grounds that an accountant cannot be paid for services which any other executor would be obliged to perform—at least such has been my experience. Sometimes a fixed sum is devised for the payment of Trustees, chiefly in the form of a legacy, but as a testator cannot tell what may arise after his death, so the provision he then makes may be totally inadequate, but it is astonishing how much work a Five pound note is thought capable of representing when its recipient is a poor accountant. I know a case where three gentlemen were employed by a mutual friend, to undertake the trusts of his will, and by whom they were assured that he had made a handsome provision for their remuneration. This friend being a wealthy man, the trust was accepted, but when the will was opened after his death it was found that the handsome provision consisted of ten pounds a year to each trustee for three years. They refused to act, whereupon the family offered to invest £1,000, and to pay the trustees the income thereof between them so long as they continued in office. This was accepted, but the trouble and anxiety connected with that estate would have been worth a good £200 a year to any man. We cannot help then coming to the conclusion, that there is great need for some legal recognition of a professional man's position, especially when he is appointed as an executor or trustee; and that he should be entitled to a fair remuneration for all the time he occupies in carrying on the trust, even though there may be no provision made for such payment in the Will. Until such is the case, it is better to avoid as much as possible all such entanglements, and be content to be employed in assisting others out of those difficulties which otherwise we may find ourselves involved in.

But while we have thus been glancing at one department only of our profession, will you allow me, in concluding this rambling, and I fear, somewhat disjointed paper, to endeavour to impress upon all who are preparing for an Accountant's life the necessity of as thorough an acquaintance as possible with *all* the branches and duties connected therewith.

We may not all have such a practical experience of any particular side of it as our friend, the President, has had, and is still more likely to have in the new position he now occupies—on his appointment to which we beg to congratulate him. But we may depend upon it, that as a rule, a good all-round Accountant stands the best chance, and at all events we may rest assured that with the application of our energies and intellect to this work, united with a determination that all we do, shall be guided by those great principles of truth and integrity, without which nothing can be well or truly done, we shall win the confidence of our fellow men, and lay the foundation of a successful and happy life.

Upon the motion of Mr. A. W. Sully, a cordial vote of thanks was accorded Mr. Jenkins for his very interesting paper, and to Mr. F. N. Tribe, for presiding over the meeting.

LIVERPOOL CHARTERED ACCOUNTANTS' STUDENTS' ASSOCIATION.

LECTURE ON "EXECUTORSHIP AND TRUST ACCOUNTS."

By J. Merrett Wade, F.C.A.

The sixth ordinary meeting of the above Association was held in the Law Association Rooms, Cook-street, on Wednesday, the 12th December, 1883, Mr. H. E. Abbott, A.C.A. in the chair.

The minutes of the last meeting were read and confirmed.

The Chairman then called upon Mr. J. Merrett Wade to deliver his lecture on "Executorship and Trust Accounts."

Mr. Wade on rising said:—

There are several branches of the profession of an Accountant of which it is desirable the student should have a good knowledge, both theoretically, from the study of books, and practically, from experience gained during his apprenticeship, if he hopes to pass his examinations successfully: and still more so if he would succeed in making a position for himself in the profession which he has chosen. But I fear that whichever of these branches were chosen as the subject of an address, it would be difficult to write anything which would be really very interesting.

I feel that, however interesting the experiences which an Accountant may from time to time have in the course of his practice, the study of the elements of the profession in the abstract is essentially dry.

But, whether dry or interesting, we Chartered Accountants and you Students, have selected, or circumstances have selected for us, this profession as the means—and probably for most of us the only means—whereby we hope to surround ourselves with some of the comforts, and even the bare necessities of life.

We have, therefore, whether we like it or not, got to make these subjects interesting to ourselves, if we are to succeed in life; and though for the present the task may often seem uncongenial, yet, as with patient study and attention we gradually conquer difficulty after difficulty, and acquire a more and more complete knowledge of our profession, we will find—not only that the task becomes less irksome, nay, at times, positively interesting but—that we have followed the only possible road to comfort, prosperity and success, and we will enjoy what is perhaps the best reward of all true labour, the feeling of satisfaction with which we contemplate the accomplishment of the objects with which we set out in life.

The remarks I am about to make upon the subject of "Trust and Executorship Accounts," although dealing only with a few rudimentary matters, with which many of you are probably already fully acquainted, may, I hope, suggest to others something or other which may afterwards be found useful, either at the examinations or in subsequent practice; and my desire is that they should form a mere introduction to a general discussion of the subject amongst those present, as such discussion will be not only more interesting, but also infinitely more useful to those taking part in it, than any formal address could possibly be.

When I first came to business I found that each separate account that came into the office had a certain title assigned to it, by which it was described in the office books, and work done was charged in the time books, and by which it was constantly referred to.

The estates of deceased persons had the prefixes of executor, trustee, or administrator added to the name, and trusts under settlements were dealt with similarly.

I soon learned that Administrators were persons appointed by the Court to administer the estates of—that is, act in the capacity of executors to a trustee of—persons who, dying, had left no will, or, if leaving a will, had either omitted to appoint executors, or had appointed persons who were incapable or unwilling to act or had predeceased the Testator. But for some time I could not make out what was the difference between executors and trustees.

It appears that an executor is appointed by a Testator to carry ont his will, to realise his estate, pay debts, expenses, and legacies, and distribute the residue amongst those entitled. If however, he is directed to hold certain shares either until a Legatee comes of age, or to hold them, paying the income to certain persons for life, and, after their death, paying the shares to others, the shares so held are said to be held in trust, and he is thereby constituted a trustee of such shares—generally with certain powers as to investment. Often executors are constituted trustees by the mere direction to hold certain shares and invest them, but sometimes persons other than the executors are appointed trustees of certain shares, in which case it is the duty of executors, as soon as they can realise the estate, to pay over such shares to the trustees, or invest them in their names. Settlements are deeds putting property into trust, and the persons entrusted with such property by the deeds are trustees.

When executors die, the survivors act, and if the executorship is not completed at the death of the last survivor, his executor usually has the right to continue and complete the executorship, or it might be necessary to apply to the Court to appoint an Administrator.

A Testator usually provides in his will for the appointment of fresh trustees, but in default of such provision it might be necessary to apply to the Court for this purpose.

When a man dies without appointing executors, his nearest relatives can obtain authority from the Probate Court to administer his estate, but must give security that they will act legally. Their duty is to carry out the will, if there be one—in much the same way as executors—or if there is no will, to wind up the estate, and divide it in accordance with the statute of distributions.

Formerly, when a man left no will, his estate had to pay a higher rate of duty than the estate of a man who left a will, but this has recently been altered; the probate and administration duties are the same, and now, when a man leaves no will, it simply means that he has adopted the will which the law set up as equitable, just in the same way that Companies which have no Articles of Association of their own, are bound by the regulations of Table A.

Practically, therefore, the duties of the Accountant are much the same in either case.

When a man dies, the solicitor is instructed to prove the will, that is, take the will, together with an affidavit by the executors, setting forth particulars of the estate, to the Probate Court of the district, pay the duty according to the scale, and obtain in exchange the authority for the executors to deal with the estate.

For this purpose the solicitor requires particulars of the assets and liabilities, and it is here that the Accountant first appears on the scene.

The printed forms of Affidavit show very clearly the information required by Governmeut, and the manner in which it is to be arranged, and a reference to these will soon satisfy you—in the cases of large and complicated estates, particularly—how useful an Accountant may be to the family and the solicitor in getting together the necessary particulars, and tabulating them in proper form. Indeed in cases where the will has been proved before the Accountant has been called in, it is often found that assets have been omitted, or entered twice under different heads, or liabilities omitted, or other mistakes made, involving a further application to the Probate Court,

There is a great difference between different solicitors; some have a very clear grasp of figures, and can detect

errors as well as anyone ; others are the first to confess that they detest figures and never can understand complicated accounts, and, as a matter of fact, I rarely see a probate affidavit or residuary account relating to an estate of any considerable magnitude, which has been prepared without the assistance of an accountant, but I can detect errors of some sort or other in it.

There have been several changes in the Probate Duties during the last few years, both in the manner in which the duties are levied and the rates.

There is a useful book on this subject by Layton, entitled "New Probate Duties," 1881, which gives the various forms and scales of rates, and explains the other changes which have been made, in a very brief and handy manner.

Until recently, Probate Duty was payable upon the gross value of the estate, but executors could obtain a return on the ground of debts, after paying same, and making an affidavit on the subject. Now the Debts and Funeral Expenses (but not Executorship Expenses) may be deducted, and duty paid only on the balance.

If, in the winding up of an estate, it is found that two much, or too little, duty has been paid, the executor may, in the former case, apply for a repayment if the amount is worth the trouble and expense, and in the latter case he ought to make a further payment.

In these cases the calculations must be based upon the scales in operation at the time of the testator's death, and upon which the original duty was assessed, and not upon the scale which may be in operation at the time the error is discovered.

The alterations in the rates of Probate Duty have involved an alteration in the Legacy Duty. Formerly, property left to a widow was subject to no further duty beyond Probate Duty, but children paid a legacy duty of 1 per cent., and more distant relatives higher rates, and property left to a widow for life, and afterwards to others, was not liable to legacy duty until the death of the widow.

Now the scale of Probate Duty has increased, and children, as well as widows, escape legacy duty on any property left to them which has paid probate duty.

One consequence of this is, that where the whole residue is left to widows and children, no residuary account is required at all.

The preparation of the Residuary Account, or of the necessary details for same, used to be an important part of the accountants' duties, but as residue is frequently left widows and children, this is often not now required.

The details required in the probate affidavit, and the schedules to same, are however, now, much more minute and resemble those formerly furnished in the residuary account ; except that the probate affidavit gives the estimated value of assets necessarily unrealized, whereas the residuary account deals with an estate which has been more or less realized.

Another consequence of this change is that the officials are more particular in their requirements, and subsequent enquiries as to the details furnished in the probate affidavit, and it frequently happens that sometime after a will has been proved, a letter comes from the authorities with a whole string of enquiries, based upon the information furnished in the probate affidavit, or the schedules thereto, enquiries, more or less, similar to those made when a residuary account is sent up to be passed, and sometimes further probate duty has to be paid, in consequence of the facts brought to light by these enquiries.

The directions given in the printed forms of affidavit are so clear, that it is not necessary to say much about the manner in which the particulars of the estate are to be set forth.

Assets are to be valued as at thedate of the account, or as near thereto as may be, and not at the date of testator's death.

Testator's interest in his firm—if he were a member of one —would probably cease at his death—that is his interest in the profits—and therefore the balance of capital found due to him at the date of his death, must be given in the account, but as the firm would probably allow interest on any balance left in their hands, such interest earned up to the date of the account would have to be added. If testator had a goodwill or continuing interest in his firm, they would have to be valued and brought in. The firm themselves may possess assets for which they would only account to the testator's representatives as realized, but meanwhile, an estimate of their value must be made in order to ascertain the real value of the whole of testator's interest as nearly as possible. The same remark applies to firm's liabilities.

The Accountant has frequently to examine the books and accounts of testator's firm in order to ascertain his real capital, and share of profits therein at the date of his death, or to check the statements thereof, rendered by the surviving partners.

If the testator had no partner, his gross business assets must be included amongst the general assets of his estate in the affidavit, and the total business liabilities amongst the general liabilities and debts, but if he had a partner then only the net value of his interest in the firm should appear amongst his assets, but this must include his share of any freehold property held on partnership account.

The share list is sufficient evidence of value of railway and other shares.

Shares not quoted, furniture, leasehold property, &c., should be valued by someone competent to give a valuation, although in some cases, I think the officials will accept the executors own estimate of value.

All dividends, interest, and rents received, and proportions included, unless they are included in the valuation as in the thereof accrued to date of the affidavit should be case of current dividends.

Freehold properties, unless contracted to be sold, are not liable to Probate Duty, but the rents thereof owing or accrued to date of death, are personal estate, and must be included.

Foreign bonds payable to bearer, or Foreign Stocks registered in this country, are liable, but not Foreign investments, which can only be transferred abroad. Estates or other properties situate in British possessions, or in foreign countries, may be liable to Duties in accordance with the laws of those places, and the Will may have to be proved there. In cases of this sort complications and questions may arise, which are so purely legal, that it is hardly necessary for the Accountant to be learned on the subject, beyond being alive to the fact that they may arise, and seeing that they are not overlooked.

Personal property, over which testator had power of appointment, is liable ; also Reversionary interests—that is the present value to testator's estate of personal property which will ultimately fall into it. Contingent interests or doubtful assets need not be included, but if they ever fall in, Probate Duty must then be paid on the full value received.

I had a case, where, on the marriage of a man, (we will call him B), his father A settled a sum of money on him and his wife for life, and afterwards to their children. Subsequently A died, leaving all his property to B, who was an only child.

Later on B also died, leaving no children, but his widow surviving. If B had left children the settlement money would, at the widow's decease, have gone to the children paying only one per cent. legacy duty. As it was, the fund will, at the widow's death, revert to the father A's estate, the trusts of the settlement having come to an end, and further Probate Duty will be payable under the father A's Will on the sum so reverting to his estate. Besides this, Legacy Duty will be payable at one per cent. on this further fund coming to the son B's estate from his father's ; as B's Will was proved before the Legacy Duty of one per cent. to children was abolished—and in addition to this—on proving

B's Will, we had to include for Duty, the present value of this Reversion; and as B's estate will, on his widow's death, go to distant relatives, a further heavy Legacy Duty will also then be payable on this sum under his Will. As B, under the circumstances, could not possibly enjoy this fund as a legacy from his father, having the use of it under the settlement, it is probable that the claims to Legacy Duty under the father's Will, will be waived, but even if so, the fund gets pretty heavily saddled with Duties.

The mode of deducting liabilities is so simple—as explained in the printed form—that I need say nothing about it, except that doubtful liabilities must be fairly estimated.

Coming to legacy duty children are now free, as well as widows, with this exception. Freehold or leashold property is liable to succession duty and not legacy duty, unless directed to be sold, in which case they pay legacy duty. Leaseholds directed to be sold and left to children, having paid the increased probate duty, would escape legacy duty; but freeholds, similarly circumstanced, not being liable to probate duty, would pay 1 per cent. legacy duty, which, if no residuary account were required, could be paid on a legacy form.

Executors have 12 months to pay legacies in, unless directed to pay sooner, and legatees and annuitants must be charged with the duty payable on their legacies, unless the will directs to the contrary.

If the residue goes to others than widows or children, then it is necessary to pass a residuary account; or if residue becomes divisible amongst children, owing to the death of someone who took a life interest, and if it is under a will proved under any of the old scales of probate duty, then legacy duty is payable, and a residuary account is necessary.

What I have said as to the preparation of the particulars for the probate affidavit, applies pretty much to the preparation of a residuary account, and the directions on the printed forms are so complete, that if these are followed the accountant cannot go far wrong.

The assets must be valued at the date of the account, or as near thereto as possible, and valuations are required. All accumulations of income from the date duty became payable to the date of the account must be brought in, all under their respective heads and all proper outgoings.

Legacies of certain sums, and the present value of annuities left by testator, calculated according to Government tables, can be deducted in the residuary account, and the duty thereon, if any is payable, paid on separate forms; and if the testator directs these duties to be paid by his estate, and not by the several legatees and annuitants, then the amount of such duty can also be deducted in the residuary account as a payment.

The balance of the residuary account, if the residue is left absolutely to persons liable to the same rate, is the amount on which such duty is payable; or, if it is divisible amongst several persons liable to different rates, the different shares of the balance of the residuary account are transferred to legacy forms, and the respective duties paid thereon.

If residue is left to different persons for life, and ultimately to others, but all are liable to the same rate of duty, then duty on the whole residue is at once payable, which covers the various successions.

If residue is left to persons liable to different rates of duty for life and ultimately to others, then duty is only payable on each life interest as it enters into the enjoyment thereof until the Corpus ultimately reaches the persons absolutely entitled, when duty on the whole residue becomes payable.

In order to ascertain the duty payable on a life interest, the share of residue is transferred from the residuary account to an annuity form; interest at 4 per cent calculated, and the result treated as an annuity; the age of the life tenant entered, and the value of such annuity calculated by Government tables, and duty paid on such value.

If residue is left to a widow for life and afterwards to, say, nephews, although no duty is payable until the death of the widow, it may be as well to pass a residuary account at once, in order to have particulars of the estate registered and admitted by the officials for "future reference."

Furniture and plate, if left to any person for life, or any number of persons in succession, that is, the use of it only, is not liable to any legacy duty, until it reaches the person absolutely entitled; on the ground that it does not earn income, and the person absolutely entitled would only pay in its value at the time it reached him.

Thus, although it might be worth £5,000 at Testator's death, yet by wear and tear of life tenants be reduced in value to £500 before reaching an absolute owner, he would only be liable to legacy duty on the £500.

On the other hand, if the furniture be sold by arrangement, the life tenants preferring to take the income of the invested proceeds in preference to the use of the furniture, duty is at once payable on such proceeds in the same way as it would be on residue.

Furniture, of course, is subject to probate duty like assets at its full value at time of probate, and if left to widows or children now escapes all legacy duty, like other assets similarly left.

Freehold or leasehold estates are liable to succession duty and not legacy duty, except as follows:—1. When contracted or directed to be sold when they come under the Legacy Duty Act: or 2. When freeholds are left to widows when they escape: or 3. When leaseholds are left to widows or children, when they escape, the children under the recent revision of the probate scale, escaping further legacy duty, as they have paid the additional probate duty. If, however, leaseholds come to children owing to the death of a life tenant, and under a will proved under an old scale they would pay succession duty in like manner as they would pay legacy duty on residue in similar circumstances.

Succession Duty is paid on the annual value at the time of the succession, and on the Life Interest only, but the rate is the same as in the case of Legacy Duty.

The forms give ample directions.

Valuations are not usually required.

The annual rent or other income is entered on one side of the account, and the outgoings, such as ground rent, insurance repairs—calculated at a reasonable percentage—on the other. A full description of the property and the age of the life tenant must be given in the portion of the account set apart for those particulars, and the Government assesses the Duty payable.

The Duty is payable on the annual value at the time of the succession, if the property is unproductive—such as land which cannot be let as agricultural land—but its value arises from its prospective use for building purposes—as there is no present annual value, it is questionable whether any Duty is payable.

Legacy or Succession Duty is also payable on all property passing under settlements in much the same way as under Wills, and special forms are supplied for payment of Duties in these cases.

It is the duty of Accountants having charge of estates, whether under Wills or Settlements, to be careful, whenever deaths occur creating fresh interests, to see that all duties payable in consequence of such deaths are paid before the property is divided.

Many complicated questions often arise, either in the preparation of the accounts for payment of Duty, or between the officials to whom the accounts are submitted, and the executors, but except so far as I have dealt with the subject, they generally are of so legal a character, that the Accountant is hardly expected to deal with them unless the experience he has acquired in the course of his practice enables him to do so.

Solicitors often prepare these accounts themselves; but where an accountant is employed to manage the estate, if he does not prepare the accounts, he has to put together the necessary information in proper form for the solicitor, and

for this purpose a certain amount of knowledge of the law and the practice is desirable.

At other times the accountant has to prepare the accounts himself, only referring to the solicitor upon legal points as they arise.

Accounts can now be sent direct to the Inland Revenue authorities in London by post. In the case of complicated estates, it is often better to send the accounts to the solicitors' London agent, who attends personally, and gets them passed easier and quicker than if a long correspondence has to be entered upon with the officials by post respecting queries they may make upon the accounts.

In keeping the accounts of an estate, the accountant should do it so that if the estate is ever put into Chancery complete accounts of all transactions can readily be furnished. He should also take great care that the estate is managed so that no liability can ever attach to the trustees.

This is, perhaps, his chief duty. Of course, in so far as he is not consulted by the trustees, or the solicitor, he is not responsible; but so far as the estate is left to his management, or so far as he can control or influence the acts of the trustees or solicitor, by information or advice founded upon his personal knowledge or information, he should do so. He has numerous opportunities both in the proper investment of the funds, by only making proper payments, in realizing the assets when convenient chances occur, and generally by managing the estate in strict accordance with the directions of the will, with the law of the land, and with ordinary common sense and prudence.

One special point is to keep a clear distinction between capital and income, so as never to pay away capital as income, or to charge expenditure properly chargeable against income, against capital, or *vice versa*.

If the estate is at once divisible, all the parties interested being absolutely entitled to their shares, it may not be considered necessary to open a set of books, but instead to prepare a simple account, shewing the realization of the estate, the payment of the liabilities and expenses, and the division of the balance, and to have the same signed by the legatees, or attached to a release prepared by the solicitor.

In any case when parting with a share of an estate, it is always desirable to have an estate account prepared, showing how such share is arrived at with a certificate at foot signed by the legatee, stating that he has examined and approves of same. Sometimes a certificate of this sort is written in the the estate books themselves and signed.

If a formal release with the account attached can be obtained, so much the better for the trustee, but legatees are not bound to sign releases, although trustees often obtain them, and legatees are generally willing to give them if they are satisfied that all is in order.

If a legatee refuses to give a formal release, a trustee can put him to a good deal of trouble and expense by throwing the estate into Chancery, in which case the trustee is even better protected than if he had a release, because the Court sanctions all that has been done—except of course so far as it finds the trustee has acted improperly—and the trustee cannot afterwards be attacked.

Many large estates are now administered in Chancery by means of friendly suits, which need not be very expensive, and by which means trustees can obtain the sanction of the Court to all their actions, and they are protected from all attacks upon their management, the estate paying the costs of the suit—indeed, whatever the nature of the suit, the estate generally pays the costs.

As a rule the great bugbear of trustees is the Court of Chancery, and not without reason, for any person having an interest in an estate can commence an action, and overhaul the trustees' accounts from the first, and although he may have acted with the very best intentions, he may be forced to refund many payments which the Court considers unnecessary, and make good losses it thinks should not have been incurred. As I have said, a trustee may protect himself against such risks as this, by himself putting the estate into Chancery from the first, and obtaining the sanction of the Court to all his proceedings, and he is also protected if he obtains a proper release, and in all probability a signed account would protect him against any serious claim. Trustees however, as a rule, having accepted the trust as an act of friendship, desire to avoid the expense of Chancery proceedings, preferring to run some little risk themselves, and probably the chief duty of an Accountant is, as I have already pointed out, to see that the accounts are kept, and the estate is managed so that the Court of Chancery may have no terrors for his clients.

In the case of most estates it is desirable to have estate books. I usually have a cash book and ledger, but no journal, as trust estate books should, as far as possible and convenient, deal with cash transactions only; and entries which in mercantile books would come from the journal being made in the ledger by transfer entries from one account to another, and the particulars otherwise furnished in the journal, being given in one or other of the ledger entries.

In some cases it may be useful to have a journal; but generally speaking the book-keeping is so simple that it is not necessary, and the information found in the ledger is more in the form in which it will be required if Chancery proceedings ever arise.

In keeping trust estate books, the principal point to be borne in mind is the great and essential difference between capital and income. It is by mixing up these two, or putting doubtful items to the wrong account, that trustees often get involved in litigation.

The distinction should be as carefully kept as in the case of limited liability companies, except where the same persons take both, when it does'nt so much matter.

The proportions of all rents, interests, and dividends to day of death are capital. So is the proportion of interest on liabilities. Proceeds of sales of allotments of stock, made in respect of other stocks held by the estate, are capital, although I have known them paid away to life tenants as income. So are the profits made on the sales of investments or increased value of investments.

Dividends on shares in ships, or rents of leaseholds, or revenue from other depreciating securities are not necessarily income.

Unless there is special authority in the Will to hold these sort of Investments, and as to the Revenue arising therefrom, they should be sold, if possible. If not, provision for depreciation may be necessary. For instance, dividends on ships should be applied in paying as income, say four per cent. on the value of such shares at the death, and the surplus, if any, should go to capital; out of leasehold rents a fund should first be provided, sufficient to keep the leases renewed from time to time, and the balance only be income. Other depreciating securities should be dealt with similarly.

On the other hand, losses on realization, or change of investments, are chargeable against capital, and speaking generally, there is no obligation to make good losses of capital out of income.

Costs in connexion with income, of collecting and distributing it, and keeping accounts thereof, are chargeable against income, but the cost of managing the estate generally, looking after the investments and trust funds, appointing new trustees, come out of capital as they are incurred for the protection thereof.

Rents, interests, and dividends, are all now apportionable as though they accrued from day to day, and persons entitled to life interests in certain funds, are entitled to the proportion of all income thereon to the dates of their deaths.

Legacies are not usually bound to be paid until twelve months after death of the testator, and do not carry interest until after that time; but I think an executor may pay them sooner if he is so disposed.

In an estate ledger, I would open accounts for each of the various securities or properties belonging to the estate—giving particulars in the heading, but, except in certain cases mentioned just now, putting nothing into the last columns until some cash transaction takes place in connexion with the investment. When the investment is sold, the cash realised is posted to the credit of the account. The proceeds of various investments standing to the credit of the various accounts are periodically transferred to certain general accounts, such as "railway shares sold," "shares in ships sold," "freehold," or "leasehold property sold," and these accounts shew from time to time the total sum realised from each of such sources.

Again, I periodically transfer the total of these accounts to the credit of a general Estate account, which then shows the total sum realized. Cash in the bank or in the house is posted to accounts, and transferred to Estate account.

Debts and other liabilities have accounts opened, and the totals paid are transferred to the debit of estate account, and funeral expenses and expenses of executorship are dealt with in the same way, and the estate account then shows the total of all receipts and payments as capital account and the net balance realized.

Investments by the executorship have accounts opened, and if they are sold out again, any profit or loss remaining in the account is transferred to Estate account.

So far I have dealt with cash only; but in the case of bonds or mortgages for fixed sums I treat them as representing actual cash sums, which they do, and when I open accounts for them I at once debit the amounts to the accounts, passing the totals through general accounts to the credit of estate account, or, if they are liabilities, to the debit of estate account.

The proportions of dividends, interests, and rents to rate of death, being capital, are also passed through accounts for that purpose; and legacies payable out of residue pass through legacy account to estate account, the result being that the estate account corresponds closely with the cash columns on the 1st and 2nd pages of a residuary account.

Income accounts are opened and the balance divided periodically, and paid to the persons entitled; and in other respects the ordinary principles of book-keeping apply.

So far I have avoided making any valuations in the books of investments left by the testator of no exact value; but a time arrives when a legatee is entitled to have his share paid whilst other shares remain in trust. Strictly speaking, a legatee is only entitled to his exact share of each investment after setting aside sufficient to provide annuities or other outgoings; but in practice, it is often inconvenient to divide up all the investments, and it is arranged for the legatee to take certain of the securities equal in value to his share of the whole. For this purpose it is necessary to value up all the securities dealt with in the division, so as to ascertain the amount each legatee is entitled to, and then it generally becomes desirable to depart from the principle of avoiding valuations in the books, and by the necessary entries to make the investment account and estate account correspond with the valuation, so that the estate account may show the share payable to the legatee entitled.

At a division or partial division of this sort, shares of doubtful securities, or investments not authorized by the will to be held as investments, should not be taken over by the trustees on account of the share remaining in trust.

If these securities cannot be divided so that the legatee can take his exact share of each, they must be excluded from the general division, and a separate account kept of them, so that the legatee paid off, shall get his share of them as they may from time to time be realised.

This makes two income accounts also necessary; one of the general investments held on account of the shares remaining in trust, and one of the undivided investments of which the legatee paid out of the general fund, continues to take his share.

When payments on account are made to legatees, they should be charged with interest on such advances—in order to equalise them with the others—either at a rate agreed upon, or at the average rate of interest the estate yields, and in arriving at this average, only the investments such as the trustees are authorised to hold, should, I think, be taken into account, and not doubtful or unsaleable securities which the trustees may happen to have on hand. Care should also be taken when making a payment on account, not to overpay a legatee.

Exceptional circumstances may make variations desirable in the mode estate books are kept, and the accounts stated, and I have noticed that the manner in which estate books are kept in different Accountants' offices, differs very much; and I would suggest that it might be desirable for Chartered Accountants, as a body, to draw up and recommend for general adoption, some uniform system of keeping trust estate accounts.

Trustees are usually directed to sell and get in the estate, but with power to postpone selling if they see fit for considerable periods. This, however, does not justify them in not selling when fair prices offer, and they are only justified in holding when they consider property is unduly depressed or likely to improve in value, and then not indefinitely, and if they decline what they should consider a good price, they might be made liable for any loss arising. On points such as these, Accountants should see that their clients are kept well advised.

The keeping of trust accounts often brings the management of properties to Accountants, and as they are paid by their clients, they have no business, without their knowledge or consent, to accept commissions from other sources in connexion with such properties, such as return commissions from tradesmen and others, which, if received, belong to the client.

Care must be taken that all buildings, whether owned or mortgaged, are kept fully insured, and, in conclusion, students must remember that what they learn in their offices about particular trusts is strictly private, and must not be talked about outside.

A discussion afterwards took place on the points raised by the lecture.

A vote of thanks was accorded to Mr. Wade for his lecture, also to Mr. Abbott for presiding.

NOTTINGHAM AND MIDLAND COUNTIES' ACCOUNTANTS' STUDENTS' ASSOCIATION.

The inaugural meeting of the Nottingham and Midland Counties' Accountants' Students' Association was held at the offices of Messrs. Mellors and Basden, 1, King John's Chambers, Bridlesmith Gate, on Wednesday, the 30th January, 1884, at half-past seven o'clock; Robert Mellors, Esq., F.C.A. (the president) occupying the chair). There were present Duncan F. Basden, Esq., F.C.A., J. E. Bryan, Esq., Borough Accountant, and H. Hubbart, Esq., A.C.A., (vice-presidents) and about 40 other gentlemen.

The Secretary (Arthur C. Bourner, A.C.A.), read his report on the formation of the Association, as follows:—

The need for an Accountants' Students' Association for Nottingham and district has long been felt, but owing to a variety of circumstances, the initiative was not taken until November of last year. After conversation between several

gentlemen, it was thought desirable to call a meeting of clerks, who would take an interest in such an association. A meeting of representatives from the principal offices was held, at which it was decided to take immediate steps to form an Accountants' Students' Association for Nottingham and district. A circular was issued to the Accountants of Nottingham, Derby, Leicester, and Newark, asking for a list of their clerks, and after the replies had been received a second meeting of the promoters was held, and a committee appointed to send out invitations for a general meeting of accountants' clerks.

A large and influential meeting of accountants and clerks, including representatives from Leicester and Newark, was held on Nov. 30th, and at that meeting a resolution was unanimously passed, forming the Association. A draft code of rules was prepared, and a committee appointed to revise them.

This is the history, so far, of the formation of this association, which we are now inaugurating. It has been formed for the purpose of advancing its members in the knowledge and practice of Accountancy, and thus not only help students to pass their examination, but also be beneficial to all its members.

To carry out these objects it is proposed to have a library, both for reference and circulation. In addition to the library, lectures will be given, dealing with the principal branches of the profession, and the committee intend to put forward, so as to raise discussions *pro forma*, bankruptcies, liquidations, balance sheets, &c., and thus give opportunities to students to become thoroughly conversant with all the branches of the profession. It has been thought that the subscription is low, but through the kindness of the firm of Messrs. Mellors and Basden, we have been provided with a very convenient room, rent free, so that our working expenses will not be high, and we shall, it is hoped, be able out of the funds, to purchase books for a library, to which I may say we are open to receive any gifts.

The PRESIDENT then delivered his inaugural address, and said: Gentlemen, it is due to you that I should, in the first place, thank you for the honour you have done me in asking me to become your President. I have pleasure in complying with your request, firstly, because of the interest I take in the welfare of the young, particularly of young men who are helping themselves; and, secondly, because I think there is necessity for improving our position as Accountants. I understand your object to be a desire to mutually help one another the better to understand the principles upon which our profession is based, and to promote skill in the application of those principles to our work.

Last Thursday night there was a distinguished gathering in our splendid University Buildings, called together for the purpose of opening the workshops in connection with the new Technical School. Professor Garnett stated that the object of those schools was to provide instruction in the principles which underlie the staple industries of the town, and in some cases to supplement the training of the factory, by affording systematic instruction in the use of tools.

Sir Frederick Bramwell, F.R.S., in an excellent address, described himself as a trained mechanic who had been at work ever since he had been a boy, when he worked at the workshop, and worked himself up.

Sir Robert Rawlinson, at that meeting, described himself as having been born of poor, but honest parents, who could work for themselves, and then referred to the fact that in his boyhood there were no such chances of acquiring knowledge, either of literature, or by such means as the schools then opened offered.

If I understand your objects rightly, what was last week being done for the staple trades, is this evening proposed to be done for our profession, as Accountants. At that meeting it was proposed to apply science to trade, and to promote dexterity in the use of tools. At our meeting we propose that young men who are to be members of the profession in the future shall understand the principles upon which they are to act, and to help one another, the better to promote their mutual improvement. We do not seek to promote skill in penmanship, but to help young men to develop and train the powers that God has given them, and to apply them to the work that they have in hand; to set them thinking, as to the why, what, and how, their work is to be done. In many of our workshops the great complaint is that the workmen will not think.

Our agricultural industry languishes partly because of the lack of skill on the part of those engaged in it. For one who works therein scientifically and understands the why and how of his work, there are 50 who simply do as their grandfather's did. In our profession this cannot be done. So far as Accountants are concerned, we are of comparatively modern growth. 30 years ago there were no Accountants in Nottingham, except rent collectors, solicitors' clerks, and ordinary book-keepers. At that time our town was comparatively small, having a population of 58,000 persons, and with the adjacent parishes, 106,000 only, but there has since been a rapid growth, until our extended borough has now a population of about 205,000, and it has also increased in like manner in rateable value, and in the varied operations of trade. Most of you come from various parts of the country to our town and district, situate as we are in the very heart of the country, and surrounded with resources of vast mineral wealth and manufacturing industry, skill and art. The necessity for skilled Accountants has arisen partly from the enormous development of trade, involving large transactions, and consequently great risks, partly from advanced education opening the door to increased frauds, which can only be prevented by corresponding diligence, and partly to legislation; which, with all its changes, augments the work of Accountants. Thus, when the Bankruptcy Act, 1849, was passed, I have heard it said that Accountants in towns thought that their work would be taken from them, but that Act, by requiring detailed balance-sheets with goods accounts, cash accounts, deficiency accounts, &c., really increased Accountants' work. The Act of 1861 and 1872 altered the proceedings, and instead of requiring balance-sheets largely promoted the administration of estates, which passed into Accountants' hands. Unfortunately in many cases, Accountants, so-called, abused their trusts, and so brought odium on the entire profession. A further change has now taken place, and the operation of the Act of 1883, while it will sweep away a considerable number of third-class Accountants, will, at the same time tend to purify the atmosphere, and increase genuine Accountancy work. For instance, for the first time we have a direct legislative incentive for tradesmen keeping proper books of account, as no man can ensure success, and in case of failure, if a bankrupt has omitted to keep proper books of account, as sufficiently disclose his business transactions, and his financial position for the three years immediately preceding his bankruptcy, then the Court will either refuse the order of discharge, or suspend the operation of the order for a specified time, or grant an order of discharge, subject to conditions with respect to earnings or income, which may become due to the bankrupt, or with respect to his after acquired property. The effect of this portion of the Act, will, I doubt not, be that tradesmen will have their books kept properly, and an annual balance-sheet prepared, calling in some respectable Accountant to verify its correctness.

Again, the Joint Stock Companies' Act of 1862 has led to a large increase in the number of limited Liability Companies; and while it is unquestionable that this has given occasion for a vast amount of fraud, yet it has also given an enormous development to trade, while it has found in well-selected concerns, a profitable channel for the investment of the savings of the middle and upper classes mentioned. This has occasioned the calling in of Accountants to investigate the value of concerns which have been turned into Limited Liability Companies, and where this has been done carefully

and efficiently it has been the means of testing the soundness of such concerns, and giving confidence to those who have invested their monies. It has also occasioned the necessity for an annnal audit and report, which is usually made by an Accountant.

An improvement in the law of partnership, which has long been a desideratum, whereby a person having capital could securely invest his money in a limited partnership, without a limited Company, will still further increase the work of our professfon, and it is even hoped that Mr. Monks bill will shortly receive the sanction of Parliament.

Now, gentlemen, I have only mentioned two of tne directions in which legislation has increased the work of our profession, and the necessity for skill among Accountants, but in addition to all this you have now to prepare accounts for the Chancery Division of the High Court of Justice, and other law courts, and accounts for executors and administrators. Accountants have frequently either to act as arbitrators, or prepare accounts for arbitrators. There is a growing tendency on the part of the judges not to waste the time of the courts by going into complicated accounts, but to require the certificate of some Accountant. You will have frequently to act as secretaries, promoters of companies, liquidators, trustees or receivers in Chancery, thus showing that the profession has become an extensive and important one, upon the integrity and skill of whose members depends the security of a vast amount of capital and the comfort of thousands of persons who have invested their monies upon the faith of a certificate given by a man who has a reputation at stake, and who is known to be skilled in the preparation and dissection of accounts.

The Royal Charter, by which Accountants have been formed into a body, has not come a day too soon. It was necessary that there should be some guarantee for ability and integrity, and although it is not possible, by the formation of an Institute to ensure this, yet the means of exercising discipline, and of expelling unworthy members, will have a greatly improving influence, while the necessity for all young members passing the examination will have a gradual tendency to make the profession more worthy of its position, and even to those young men who are not articled, but who occupy positions of confidence and trust in Accountants' offices, it cannot fail to be of advantage to them to come together at stated periods to read and hear papers bearing upon their daily occupation, and to all it must be of service to have books of a technical character circulating among them, inasmuch as such books are usually of an expensive kind, of little interest to the general student, and will only be purchased by those to whom such books are specially directed.

One reason for the formation of this Accountants' Students' Association, is, I am informed, the fact just referred to, that all persons becoming Associates of the Institute of Chartered Accountants, must pass the examinations. The examinations are, to my mind, somewhat severe. They require, in the first place, a first-rate education to pass the "preliminary;" this, however, we cannot complain of. but the questions which are put in the intermediate and final examinations, require such an extensive knowledge of law, and such acquaintance with commercial transactions, that unless there be some aids to young men, both on the part of their principals, and also the mutual helpfulness, as well as by persevering painstaking study, it will be utterly impossible to pass these examinations with credit. Not merely in the preparation for such examinations, but also in the carrying out of your work you will require great care, so as to ensure accuracy clearness of thought, so as to avoid confusion; great powers of observation, so as properly to realize the facts that have to come under your notice; together with skill in the manipulation of figures. None of these can be obtained by chance. There is no royal road to skill in accounts. Only steady perseverance will ensure success; only thoroughness can make you strong on these points. If you are to manifest genius, it can only be by a capacity for taking pains, remembering that whatever is worth doing is worth doing well. This will be best observed by working systematically and cultivating great simplicity. It not unfrequently happens that balance-sheets are prepared in so confused a manner that it is difficult even for an experienced Accountant to grasp at a glance the position of affairs. I would strongly urge the necessity for "self-speaking" accounts, so that complications may be avoided, and all the various items brought to a focus.

You will find great care necessary in the verifying of the correctness of all the items of a balance-sheet, and particularly of the assets. Thus in machinery, unless you take care that sufficient provision has been made, not only for charging the ordinary repairs, but also a per centage for depreciation, you will find in the course of a few years that either by use, or by improvements. in mechanical invention, such machinery will be of considerably less value than it appears in your balance-sheet. Again, in book debts, not only must provision be made for bad and doubtful debts, but also for discounts and cost of collection. In stocks, frequently a part of the merchant's profit is anticipated, sufficient provision is not made for spoiled, damaged, or season goods, or goods the value of which is depreciated by change of fashion.

I would impress upon you that in your preparation of balance-sheets, you should take care, that as far as practicable, all the assets are realisable. Always discourage the bringing in of large items for goodwill, formation expenses, cost of patents (which may be valueless) &c., an Accountant should not take anything for granted. I remember an instance in which observing that the cash in hand had for several years appeared somewhat large. I required the cashier to actually produce to me his cash as shown in the accounts, which I found consisted to a considerable extent of memoranda, old deficits, joins, &c, the result of which disclosure was that he lost his situation. As an illustration of the necessity for your being wide awake in the ascertaining the correctness of the assets, I may refer to the recent prosecution of Warden and Watters, where you will remember a part of the securities which had passed the auditors were afterwards made to do duty a second time, so that twice on the same day they appeared as assets in different accounts.

I have not time in this address to enter into the necessity for like care in the verification of liabilities. Here let me say that I have no faith in cheap audits. It is not an uncommon thing for auditors to be paid two or three guineas to sign accounts, and very frequently those signatures are dear at the price. I remember a company in Nottingham some years ago, where the auditors, who were respectable shopkeepers, were always convened for the audit half-an-hour before dinner. The so-called audit merely consisted of their acccpting a few figures on slips, prepared by the Secretary, showing how he had arrived at the items of the balance-sheet, he wished them to sign, and as there was only a limited time before it was *necessary* to adjourn to dinner, the accounts were signed and good fellowship followed. Need I say that the company found it necessary, upon the death of its Secretary to transfer its business, through inability to carry it on successfully. I should now refer to a point, that as auditor, you will frequently find the need for, viz., conscientiousness. Auditors of limited companies are, as you are aware, appointed by shareholders, but the directors are generally the principal shareholders. Sometimes it will be necessary to take a position contrary to the opinions of the directors, and in so doing you may risk the continuance of your appointment. One could wish that the position of an auditor was somewhat more secure, so that he might feel more independent. It is difficult to see how this could be done, and until it can be accomplished, firmness and integrity will be somewhat at a disadvantage, but yet in the long run will be the wisest course.

And now allow me to urge upon you the importance of

cultivating thoughtful habits of mind. The preparation of papers to be read before the Association will doubtless confer even more benefit upon yourselves individually, than it will to those who listen to the papers. Thoughtlessness will lead to loss ofpapers, to forgetfulness of memoranda, to neglect of appointments, and to general confusion, and, pardon me, if I say that you will not be good thinkers if you indulge too largely in pleasure or amusements on the one hand, or if on the other hand, you indulge in any vicious pursuits. The doing of things you know you ought not to, will occasion confusion of mind and inefficiency in life. It is a remarkable thing which I am unable to account for, but it is a fact, notwithstanding, that vicious men cannot either clearly discern truth, nor properly appreciate the beautiful, or accomplish great results.

Let me warn you against any illegitimate attempt to make a balance sheet "agree" by recourse to what is called "cooking," as it is sure to turn upon you in requiring extra time and labour in your next balance, so that you will be like men borrowing money to meet a present necessity by agreeing to pay 100 per cent. interest.

The fact is, the only way to ensure success is to deserve it. The only way to obtain confidence is to act fairly, truthfully, and above-board, and notwithstanding that our profession is, at the present moment, through the unscrupulous conduct of some of its members with regard to bankruptcy practice, under a cloud of public estimation, yet be assured that right doing will bring returning confidence, although not so rapidly as wrong doing dissipates it.

I would illustrate this by a reference to the legal profession, with which you will have much to do. No profession is more abused. Who does not love to have a joke about the lawyer eating the oyster and giving his client the shell? Who does not laugh at the representation of a law suit, in which the plaintiff is shown as pulling at the horns of a cow, and the defendant at the tail, while the lawyer is quietly milking it, and yet let me say that there is no class of men more trusted, and let me go further, and say, with regard to many of its members, more deserving to be trusted. Into their hands clients place their affairs, doing implicitly as they are told, and they do so because they have confidence that the best will be done that can be done.

If one profession secures the confidence of its clients another may.

My final words are, have a purpose in life—an aimless life is a useless one—you may become skilled and trusted, if you will, but neither skill nor success are brought about by wishing; they can be attained and retained only by proper exercise.

"Act well your part,
There all the honour lies."

Mr. HUBBART, A.C.A., said he would advise any person in any profession or business to bear in mind that "A man should know something of everything and everything of something." In accountancy people should not confine themselves solely to accounts, but must become possessed also of general information.

Mr. BRYAN said that if the young men of the profession would only take the president's remarks to heart the profession would be very much raised.

Mr. BASDEN said it might be the feeling of some that when a profession had got into the position that theirs had, in consequence of the unfaithful way in which many persons had carried on their duties, it would be a disgrace to belong to it. But he supposed that in whatever profession of business anyone entered there would be ample scope for dishonesty, and if there was any dishonesty in the profession of accountancy, then there was the more need for honesty in it, and instead of seeking to get away from any occupation which was laid before them, let them raise their business by their presence in it.

Mr. DERBYSHIRE proposed, and Mr. PROCTOR seconded, a vote of thanks to the president for his address, and the motion was carried.

It was arranged that at the next meeting of the society Mr. Hubbart should offer some remarks on banking in its connection with accountancy. The meeting passed a vote of thanks to those societies that had given advice to, and aided in, the formation of that one. It was also decided to co-operate with other similar societies, the secretary being appointed co-operator. A request was ordered to be forwarded to the Institute, asking for a grant of suitable books, so that a library might be formed.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

BANKING.

By JAMES BOARDMAN, F.C.A., F.S.S.

The 14th ordinary meeting of the Manchester Accountants' Students' Society, was held in the Old Town Hall, on Monday evening, 14th January, 1884, at half past six o'clock.

Present, Adam Murray, Esq, F.C.A. (in thechair) Jas. Boardman, Esq., F.C.A., F.S.S., C. R. Trevor, Esq. F.C.A., and a fair attendance of members.

The secretary, Mr. Arthur E. Piggott, read the minutes of the previous meeting, held 17th December, 1883, which were declared correctly recorded. A letter was also read from David Smith, Esq., F.C.A., regretting his inability to be present.

Mr. Murray in introducing the lecturer of the evening, stated that he wished for a moment to refer to the lecture he (Mr. Murray) delivered, on Income Tax Practice, and to say that before sending to press he had altered his manuscript to the extent of asserting, that Fire Insurance premiums *were* allowed in reduction of duty payable; and that he should have the pleasure of sending to each member of the society, a copy of his lecture in pamphlet form. (Applause). The chairman then referred to the results of the December examinations of the Institute, in which five members of the Manchester Accountants' Students' Society had been successful, namely: Mr. Robert Smith (clerk to Broome, Murray, and Co.), who being second in order of merit at the intermediate examination was entitled to the society's prize of £2 2s. Mr. George Sydney Turner (also clerk to Broome, Murray, and Co.), and Mr. Richard Robert Hamilton (with the same firm), and in the final examination, Mr. James B. Sutton (clerk to Handley and Wild), and Mr. John Tonge (clerk to Broome, Murray, and Co.), after which remarks he called upon Mr. James Boardman, F.C.A., F.S.S., to deliver his lecture on "Banking." Mr. Boardman on rising, said:—

Mr. Chairman and Gentleman. On being requested by your indefatigable secretary to address you, I hesitated—not from any disinclination to take my share of the work, which you have a right to expect from me—for I felt it very difficult to be able to bring before you a subject, which had

not already been treated by others of our profession in a more exhaustive and skilful manner than my capacity will permit me to perform. I, nethertheless, consider it a privilege to address you on the subject of banking—a matter which concerns you materially in the honorable profession which you have chosen to pursue—yet, I regret that the time at my disposal has been limited, notwithstanding that I was early apprised by Mr Piggott that the general committee of your admirable and useful society, to which I am proud te belong, desired from me an address on an instructive topic. In selecting banking for my subject, I believe that I have adopted a matter which has not been touched upon at any of the meetings of this, or other intellectual associations in this city. I feel, thereiore, that I am *not* travelling upon a hard and beaten track.

Having thus made these few introductory remarks, I will now pass, without delay, to my subject, but let me first be permitted to digress for the purpose of saying that when I had decided upon what should be the head of my address, it was not the difficulty of enlarging upon my theme that perplexed me, but the embarrassment under which I labored in order to curtail my words, without contracting their meaning, so as to save you from weariness or impatience.

Banking is a kind of trade carried on for the purpose of getting money. A banker is an intermediate party between the borrower and the lender. Banking differs from other businesses, inasmuch, as it is carried on with the money of other people. We all know that in the earlier stages of society, little or no money was required. By degrees, as surplus means above expenditure, with a power of using or exchanging, that surplus created capital and barter or exchange of one description of goods for another began to be in common use, and a defined standard as a medium of exchange, was found highly desirable. Bartering is the exchanging of one commodity directly for another without the employment of money or other medium of exchange. This is the usual mode adopted among savages or uncivilized races, and it is likewise generally adopted by civilized nations in trading with savages.

Banking doubtless first took its rise in the lending of money at interest; but the origin of this practice is so remote that it does not come within the range of authentic history. The Romans were learned in banking operations. The wealthy men caused their revenues to be paid into, and cheques or drafts drawn upon, the banks. The bankers of Rome first introduced the system of cheques. If the creditor also had an account at the same bank, the account was settled by an order or cheque, authorising the transfer of the required amount to the account of the transferee; similar to the course pursued by modern debtors and creditors. Banking was then looked upon with contempt, but now it is deemed very respectable, *and justly so*. The private bankers of Rome were held in disrepute through the prejudice against the taking of interest for the loan of money. No doubt the rates charged were exorbitant. Augustus Cæsar lent money — the proceeds of confiscated property of criminals—without interest, to citizens who could pledge value to double the amount advanced.

Alexander Severus lent money at a low rate to poor citizens to aid them to purchase lands, agreeing to receive payment in produce. The word "bank" is derived from the Italian word *Banco*, a bench.

The Lombard-jews in Italy, who were the first to establish the business in Europe, had benches in the market place for the exchange of money and bills. When a banker failed to meet his liabilities his bench was broken up by the infuriated creditors, hence the word *Bankrupt*.

I may say that in England in 1731, an Act was passed by which a bankrupt who secreted his books or property incurred the penalty of *death*; and a man named Perrott was, under that law, *hanged* in 1761. If that Act were still in force, it is not within my power to say whether there would be many who would follow the fate of John Perrott, or whether we should have fewer cases of "the debtor had not disclosed the whole of his estate."

The most ancient bank of which we have much information was the Bank of Venice established in 1157. It originated in the exigencies of the state. Banking seems to have begun to flourish more in the 14th century with the Florentines, who were large manufacturers of various kinds of goods particularly of those of silk and woollen. Their consignments to all parts of Europe, led them to engage in the trade of banking, and subsequently the money transactions of nearly all Kingdoms passed through their hands. The first mention of the principles analogous to those of our own Joint Stock Banking, is to be found in Mitford's History of Greece. He says :—

A very remarkable project, which seems to have been original, next occurs, viz. :—the establishment of a bank by subscription open to all the Athenian people. The interest of money was enormous at Athens. Throughout modern Europe, land is, of all property, esteemed the safest source of income, but in Greece it was held that the surest return was from money lent at interest. Greece was divided into small republics with very narrow territories, and the produce of the land was continually liable to be carried off or destroyed by an invading enemy. A moneyed fortune was, therefore, considered safe within the city walls. It was proposed to lend money from the public stocks, and by encouraging commercial adventure by just regulations, to raise a great revenue, and by the same means, instead of oppressing, to enrich individuals. When the profits would permit it was proposed to improve the ports of Athens; to form wharves, docks, &c., for which tolls or rents should be paid. Thus while numbers of individuals were encouraged and employed, the whole of the Athenian people would become one great banking company, from whose profits every member would derive an easy livelihood.

The Bank of Amsterdam—the model to a great extent upon which most of the European banks now in existence were formed—was established about 280 years ago, to remedy the inconvenience arising from the great quantity of clipped and worn out foreign coin that was in circulation. It was the entire property of the city, and its direction was under the control of four Burgomasters. It professed to lend out no part of its deposits and to possess, bullion to the full amount of the credit given in its books. But when the French took possession of Amsterdam in 1796, it was discovered that the bank had lent nearly a million sterling to the States of Holland and Friesland, and this caused its ruin.

Interest the usual sum or rate agreed to be paid by the borrower—of a sum of money to the lender for its use—forms one of the largest items of gain in the profit and loss account of a modern bank. The rate of interest is the measure of the net profit on capital. During the middle ages the taking of interest for the loan of money was deemed sinful, and was stigmatised usur—ya term used to denote excessive interest. The legal enactments against usury have been repealed during the present reign. Where there has been no special agreement respecting interest, five per cent. still remains the legal rate recoverable at law. In England after the conquest, Christians were forbidden, both by the ecclesiastical and civil law, from taking interest, but the doing so by the Jews in that respect was connived at. The system of lending money on interest seems to have existed from very early times, and Moses laid down rules regarding it. He enjoined the Jews not to take interest from any of their own race, but expressly authorised them to do so from strangers. The practice of lending money on interest, appears to have been coeval with the use of money. What the rate of interest was among the Jews, does not appear very clearly from the Old Testament, but from a passage in Nehemiah it is conjectured by commentators thatit was one per cent. per month, and, as an additional month was intercalculated every second or third year, this interest was

equivalent to at least, 13 per cent. paid yearly. In Rome, the interest was 8⅓ per cent. for the old year of ten months; but though this restriction was in force at Rome, in the conquered provinces enormous interest was exacted. In Mohammedan countries the ordinary rate is three or four times higher than the current rate here.

The Jews arrived in England about the time of the conquest (1066).. After their expulsion from this country in 1290, the history of interest is obscure till 1488, when a statute was passed forbidding interest to be taken; and from a passage in the Act, it would seem that 20 per cent had been the usual rate. In the reign of Elizabeth the Act was repealed and interest at 10 per cent. was legalised. In 1126 usury was prohibited only to the clergy, and at a subsequent council it was decreed that such of the clergy who were hunters after sordid gain, ought to be degraded. How would this apply to day? The earliest mention we find of a certain yearly allowance for usury or interest of money is in 1199. The rate was then 10 per cent. In the reign of Henry 8th the rate rose exorbitantly. The Jews and the Lombards were the principal money lenders. The industry and frugality of these people put them in possession of all the ready money which the idleness and profusion then common to the English, enabled them to lend at high and unequal interest. By their extraordinary shrewdness in trade, they became remarkable for wealth. Previous to the expulsion of the Jews, the Lombards or Italian merchants from Genoa, Florence, and Venice had settled in England, and soon became as important in business as the Jews themselves. The foreign commerce of these times was generally carried on by companies of merchants who paid certain duties, and, in addition to being invested by the Government with a monoply of the trade of those countries of which they were natives, they possessed peculiar privileges. As the Lombards engrossed the trade of every Kingdom in which they settled, they soon became masters of its cash. They carried on extensive banking transactions at rates as high as 20 per cent. to 30 per cent. A street in the city of London well known as being the greatest banking centre in the world, bears the name of Lombard. The spirit of emulation to obtain as high a rate of interest as possible, is, however, rife among the English money lenders of the present day.

In 1645 a new era occurred in the history of banking. The goldsmiths who had previously been money-changers, now became money-borrowers, and money-lenders, and allowed interest on money borrowed. They acted also as rent and debt collectors. The receipts they issued for the money lodged with them circulated from hand to hand, and may be considered to have been a *kind of Bank of England note*. The merchants of this country having become rich, they deposited their money in the Tower of London, but *in 1640, Charles 1st took possession of £200,000* of the amount so lodged and from that time the merchants kept the money in their own houses, to be subsequently robbed by their apprentices who ran away and joined the army. This gave rise to the necessity of employing bankers. These bankers were usually the Goldsmiths. In 1672 the bankers were again in trouble. Charles 2nd shut up the Exchequer and would pay neither the principal nor interest. The amount due by the King was upwards of £1,328,000, borrowed at 8 per cent.

The closing of the Exchequer caused great and widespread distress. Merchants, widows, and orphans were suddenly deprived of their property. The clamour became so great that the King granted a patent to pay interest at six per cent out of his hereditary excise, but the creditors never received a farthing. The amount still forms a part of the national debt.

The Bankers, during the reign of Charles II. advanced money to the King as soon as Parliament had voted him certain sums out of particular taxes, and the mode of repayment of principal and interest was agreed upon when the loan was effected. The repayments with interest were generally made by weekly instalments at the Exchequer.

Non-traders in those days had no way of employing their money except by placing it in the hands of the Bankers.

Money in ancient days was transmitted by special messengers. Subsequently Bills of Exchange or open letters of request from one man to another, desiring him to pay a sum named therein to himself or to a third person on his account, were introduced. For instance, if "A" lives in New York and owes "B" who lives in Manchester £1,000 and "C" be going from England to New York, he may pay "B" the £1,000 and take a Bill of Exchange drawn by "B" in Manchester upon "A" and receive it when he arrives in New York. Thus "B" receives his debt and "C" carries over the money in paper credit without danger of robbery or loss. Bills of Exchange are said to have been invented in the 14th century by the Jews or the Lombards for the purpose of withdrawing their property from the countries from which they were expelled.

We will now pass on to banking of a more recent date. *Modern Banking* may be divided into four principal heads, which seem to have taken their rise in the order following:—

The exchanging of money, the borrowing of money, the lending of money, and the transmission of money. The *Bank of England* was founded in 1694, after severe opposition. The promoters expatiated upon the national advantages that would accrue from its establishment, that it would rescue the nation out of the hands of extortioners and usurers; lower interest, raise the value of land; establish public credit: and connect the people more closely with the government; while, on the other hand, the opponents of the measure alleged that it would create a monopoly, and draw all the money of the kingdom into its coffers, and thus become master of the wealth and stock of the nation; that it would encourage fraud, gambling, and stock-jobbing, and corrupt the moral life of the people. The subscribers were formed into a Corporation styled the "Governor and Company of the Bank of England." The act authorized them to raise £1,200,000 by voluntary contributions. £300,000 was also to be raised, and the subscribers of this fund were to receive in lieu thereof annuities for one, two, or three, lives.

The capital now is, of course, vastly in excess of the first issue.

The Corporation cannot borrow, or owe, more than the amount of their capital without incurring personal liability. They were to lend the whole of their capital to government at the rate of 8 per cent per annum. The government employ the Bank of England as agents in all monetary transactions, such as loans, and advances in anticipation of taxes, and upon Exchequer bills, and other securities.

Exchequer Bills are bills of credit in sums of £100 to £1,000, issued under authority of Parliament, and forming the principal part of the debt of the country. They were first issued in the reign of William III. They pass from hand to hand without any formal transfer, and holders can, at their option, be paid their amount at par. The interest is payable half-yearly at the Bank of England. Some Bankers and private persons give a preference to Exchequer bills. Money can be borrowed on them quietly and secretly. As the government must pay the interest in March or June, there can be no loss beyond the amount of premium at which they were purchased.

Exchequer Bills have, however, their disadvantages, but as a full explanation would occupy too much time, I must leave the subject.

Bank Post Bills.

In consequence of the numerous robberies during the old coaching days, the Bank of England commenced to issue Bank Post Bills, so that in case the mail was robbed the parties might have time to stop the bills. These bills are granted by the bank at 7, 14, and any greater number of

days after sight; the value being paid in cash when the bills are taken out. They are readily accepted in any part of the world upon the credit of the bank, and are therefore a boon to travellers, and a great convenience to parties having to remit money to any part of England or even to foreign countries. A person wishing to remit value by Bank Post Bill knows that the only expense is the loss of interest for the money for the time being.

Consols.

The British Government during the process of borrowing money, which now forms the National Debt, laid themselves under special conditions; these conditions generally consisted in an undertaking to pay an annuity of so much per cent. On account of the complication and confusion which arose from the number of stocks thus formed, an Act was passed in 1757 to consolidate them into one fund. In 1750 a reduction took place in the interest of part of the National Debt, and the Bank consented to receive a reduced rate of interest upon a part of the debt due to them by the Government. The bank also agreed to advance to the Government a sum to pay off the dissentients. Subscriptions were then invited, and the subscribers were to receive 2/- per cent. on the full amount of subscriptions and £4 per cent. on the sum actually advanced. In the following year, the balance of annuities granted in the reign of George 1st was carried to a 3 per cent stock. The two were consolidated into one stock still called "3 per cent. consols;" consols being an abreviation of consolidated. This Government Stock had paid 3½ per cent. and 4 per cent. prior to 1757 when. as already stated, it was reduced to 3 per cent. and still carries the name of "3 per cents reduced."

Bank of England Notes.

The bank is not liable to pay forged notes. All Bank of England notes kept in circulation ultimately find their way back to the Bank of England. The average number of days a £10 note was formerly "on the circle" was 236; a £20 note 209 days, and a £1,000 22 days. The average life of a £5 note is said to be about one week, and the others are not now as long out as they were before inter-communication became so rapid.

A Letter of Credit.

Is an order given by a banker or other person at one place to his agent, in another authorising him to pay a particular individual a certain sum of money. A letter of credit is not a negotiable instrument, and therefore only the person named in it can legally demand payment.

By the original charter, the bank was allowed to issue notes or bills of credit to an amount not exceeding £1,200,000, the then amount of its capital. The bank was authorised in 1857 to issue notes to the extent of £14,475,000, against which sum she has securities set apart for that purpose, and besides this can issue to the amount of gold and silver she possesses. This has not been changed to my knowledge. Bank of England notes are a legal tender in all cases except when tendered by the bank herself.

The paper required in the manufacture of Bank of England notes is made in Hampshire, and is usually kept six months before it is taken into use. The dies, from which the water mark is made, and the plates used in printing, are all manufactured at the bank; the printing is likewise done on the premises. The notes are printed by a double process, the first embracing all portions excepting the numbers and the dates. The second process is not entered into until the notes are required for issue; they are then numbered, dated, and signed. When the chief cashier has deposited the notes in the Treasury for daily use, he advises the chief accountant who immediately opens a general credit account for the amount of the new creation of notes, and at the same time opens ledgers numbered and dated, a separate credit being opened for each note. There are two ways by which the notes get into circulation.

1. Anyone can demand notes in exchange for sovereigns.
2. Persons having accounts at the Bank of England have only to draw cheques, and on presentation can have them cashed in notes and in gold as they may prefer.

A Bank of England note is virtually a Promissory Note; anyone taking it to the bank is entitled to make the demand and receive the equivalent in coin. A record of every note issued, and likewise every note returned into the bank, is kept, and therefore the actual number and amount of notes in circulation is known by the accountant every night. All the notes which find their way back to the bank are immediately cancelled by tearing off the corner bearing the signature, and subsequently they are further defaced by punching out the amount in the left-hand corner.

The notes are sorted daily, and placed in amount, date, and numerical order.

Every cancelled note bears a reference, and a clerk can in a few minutes find by whom and when the note was paid in.

The parcels of notes are preserved for seven years, and then burnt on the premises.

In the library of the Bank of England there are 16,000 boxes containing bundles of cancelled notes, which number about 80,000,000, and such is the methodical arrangement that any of these notes can be turned up in a few minutes, should the bank officials, or any of the public, desire to see it.

In 1832 a committee of secresy was appointed by the House of Commons to enquire into the expediency of renewing the charter of the Bank of England. The concluding paragraph of the report sets forth "that in addition to the surplus "rest" or surplus funds in the hands of the bank amounting to £2,800,000, the capital on which interest is paid to the proprietors, and for which the State is debtor to the bank, amounted to £14,553,000, making an excess of £17,433,000 above liabilities. The Bank of England derived its profits from the following sources:—

1. Interest on its capital.
2. The use of the "rest" or surplus capital.
3. The use of the Capital raised by the circulation and the deposits.
4. The allowance they receive as agents and for transacting the business of the Government and for managing the National Debt.
5. Bank Post Bills.
6. The accidental destruction of notes in circulation.

Up to 1827 the profits ascertained under the last head were no less than £1,037,330. I have no recent data, but it necessarily follows that with a more extensive circulation of notes the profits to the bank under this head are much larger than they were 60 years ago.

The government of the bank rests entirely with the Board or Court of Directors elected by the proprietors of bank stock at the Annual General Meetings. The Governor and the Deputy-Governor are appointed by the Directors, and usually continue in office for 12 months. The Directors who have passed the chair form a select committee. The Governor and the Select Committee manage the affairs of the Bank in the intervals between the sittings of the Court. The Governor and the Deputy Governor are in daily attendance, as well as a Committee of three Directors, who receive reports of all the proceedings at the branches; see that all securities of the previous day have been lodged with the proper officers; look up securities on which advances have been made on the previous day; and examine, from time to time, securities deposited by customers.

All bills presented for discount are seen by them, and they either approve or reject them.

The Book-keeping is carried on under the superintendence of the Chief Accountant who requires the Chief Cashier to

account for all cash received and paid, and thus a daily check is kept on all the tranactions.

The Governor of the Bank purchases the bullion, and he considers that he has no power to refuse the issue of notes for bullion. The purchasing price is £3 17s. 9d. per ounce.

If an importer of gold or bullion wishes to sell, *i.e.*, to obtain gold coin which he can pay away in exchange for his daily requirements, he can take his bullion to the Mint and receive in the course of a few days, coin at the rate of £3 17s. 10½d. for every ounce of gold 22 carats fine. But he can sell his bullion at the Bank of England, who are under an obligation to buy at the rate already stated, viz., £3 17s. 9d., and receive coin at once. Importers find it more convenient to deal with the bank and receive 1½d. less per ounce.

The term "Bullion" is applied to silver as well as to gold in any shape or form but that of coin.

While the Bank of England are bankers for the State they are likewise bankers on their own account, and transact the ordinary business of London bankers. They will not allow interest on deposits; nor will they allow any account to be overdrawn. The bank makes investments in public and private securities.

What are ordinarily called good banking securities are bills of exchange, loans for short periods, government stock, &c.

With your permission and indulgence we will take a further peep into the inside of the Bank of England, whose system of working is so admirably arranged.

THE NATIONAL DEBT-STOCK.

So long as the Bank of England exists as a Corporation books are to be kept at the bank, in which the name of every stock proprietor is to be entered. The entries in the first instance are confined to the original subscribers to the loan. A scrip certificate for the amount paid is granted, containing the name, residence and description of the subscriber. The certificate is taken to the stock office, to be entered into the scrip-book, and the certificate is left with the bank.

The particulars are also copied into a journal, and subsequently into a ledger, and the scrip then becomes stock, transferrable at the pleasure of the proprietor. The whole operation of converting scrip into stock requires only one day. The total entries in the ledgers correspond with the total amount of the specific loan. The holders of the stock are now able to sell according as buyers appear, and all further transactions proceed without interference by the bank. The Bank of England act as managers or account-keepers of the National Debt.

If a person wishes to buy £1,000 of a particular stock, say 3 per cent consols, he applies to his stock-broker. A transfer ticket is obtained from the bank, upon which are entered the name of the seller and the name of the buyer, and the amount to be transferred. The transfer ticket is left at the bank, and the data is copied into a book containing blank forms of transfer. The broker in the meantime has prepared a document called a stock receipt, agreeing in the main with the entry made in the transfer book. "A" then signs the transfer book, which is a formal discharge to the bank. The stock receipt is then handed to "B" the buyer, and "B's" name is thereupon identified as the holder of the stock. It matters not into how many accounts "A" may wish to transfer his stock, the same course is followed; each transfer is a perfect deed of conveyance. The transfer book is so contrived as to be at the same time the journal by means of which the entries in the ledger are posted or checked. If the transferor or the transferee live away from London, the transaction may be effected under power of Attorney. The transfer tickets are looked upon as the very foundation of all stock transactions, and are scrupulously preserved by the bank. If the ledgers should be destroyed, the possession of the tickets, together with the dividend books of the preceding payment would, at any time, enable the bank to prepare new ledgers.

The dividends on all English stocks are paid half-yearly. Before the dividends on the stocks are paid, the transfer books are closed, in order that the necessary warrants may be prepared.

The dividend books are made up in the following manner:—

The name of the proprietor is entered on a "slip," with the amount of stock belonging to him; the half-yearly interest, the amount to be deducted for income-tax, thus showing the net sum payable to the holder of the stock. All the names on the slips are then copied on to ruled sheets, which are eventually bound into volumes forming dividend books. The columns appropriated to principal, interest, duty, and net sum are added, and the total amounts of the respective dividend books show the full amount of stock, and the entire amount of dividends payable. The amounts having been agreed, the notices for the payment of the dividend are filled up, called over, and agreed; they are then sent out, and arrangements are made for payment of the dividends.

The dividend warrants can be presented personally, or through a banker or other agent. They can be cashed immediately at the Dividend Pay Office. The paid warrants are handed daily to the Cheque Office. The clerks in this office verify the payments, thus confirming the work in the Dividend Pay Office. They are subsequently sorted into numerical order, and the principal and interest of each warrant is entered on sheets printed with numbers corresponding with those on the warrants. The blank numbers represent the outstanding warrants. The unpaid items are checked by reference to the warrant drawers in the dividend rooms. Once a year, the warrants, over 500,000 relating to the stocks, and a copy of the sheets, together with a copy of the dividend book, are sent to the audit office, Somerset House, and are there again checked.

Over 400 clerks are constantly employed, with an additional staff of 50 during the dividend periods, to do the work in connection with the National Debt, and upwards of 1,700 books are constantly in use. None but those versed in the dry detail of accountancy can comprehend the amount of work that has to be done in this department alone.

There are upwards of 170,000 transfers effected annually, necessitating over 350,000 alterations of accounts.

Every item must be agreed, otherwise the whole of the machinery is thrown out of order. In no other country in the civilized world is there exhibited so bright an example of national integrity on the one hand, and confidence on the other, as is shown not only in connection with the Bank of England, but generally with banks throughout Great Britain.

There is a power of Attorney Office at the Bank of England. More than 30,000 powers are issued every year.

REGISTER OFFICE.

Wills and Letters of Administration are lodged in this office, and at least 4,000 are dealt with annually.

THE LIBRARY.

This room contains upwards of 100,000 stock books, ledgers, dividend lists, and sundry other books used by the bank. They are so systematically arranged that reference can be readily made to any of them. The books in this place contain a very interesting and valuable collection of autographs, embracing among their number those of some of the most renowned persons of their day.

THE PRIVATE DRAWING OFFICE.

The principle upon which the bank will consent to open an account, may be roughly stated thus:—She will require to receive as interest sixpence for every cheque paid. If a customer keeps an average balance of £500, it would be necessary to let £100 remain unemployed. The remaining £400 at 3 per cent. would yield £12 a year interest. If not more than 480 cheques are cashed during the year, the account would be considered a remunerative one; 480 cheques at 6d. being £12.

CHANCERY AND EXCHEQUER OFFICE.

Here are kept separate accounts in great detail of cash

and funds in connection with all causes and matters of suitors in the Court of Chancery, which are often rendered intricate by law, formula, and process. The drafts issued by the Accountant in Chancery, are examined in that office before being passe d for payment.

GOLD WEIGHING ROOM.

All gold coin paid in is weighed in this room. There are 12 or more machines constantly at work. It is only necessary to feed them with sovereigns and half sovereigns. The light are separated from the full-weight coins at the rate of about 2,000 an hour, each with an unerring accuracy and precision. The light money is cut, re-melted, and coined again.

UNCLAIMED DIVIDEND OFFICE.

It must be obvious that from many causes dividends remain unclaimed. Persons die intestate, and their relatives are not aware that any stock stood in the name of the deceased. Others leave the country and never return. If the dividends remain unclaimed for ten years, the amounts are transferred to the credit of the commissioners for the reduction of the National Debt, but the parties can, at any-time, make good their claim, on production of the necessary evidence in support of such. Formerly the difficulties of obtaining unclaimed funds were great, but now it is a comparatively easy matter. Thousands of pounds have been reclaimed since the law was amended in 1856.

Having given, as succinctly as possible in an address of this nature, the early history of banking, and having taken you through some of the departments of the principal house in the world, I will pass at once, at the risk of wearying you, to the general principles of banking.

The trading capital of a bank may be divided into two parts, viz :—

1. The Invested Capital.
2. The Banking Capital.

The invested or real capital is the money paid in by the shareholders or partners. The banking or borrowed money is produced in the course of the bank's business. There are three ways in which the latter is raised :—

1. By deposits lodged at the bank by its customers.
2. By drawing bills.
3. By the issuing of notes.

This latter method can pass because it is not general.

Banking facilitates trade and increases the capital of the nation. It encourages commerce and augments wealth. Money must be sent from a place to pay for its imports, and money must be received in exchange for exports.

Every bank has its agent in London, and also agents in the provinces. They are spread over the country like net work, of which the Bank of England may be said to be the centre, and the Metropolitan banks are the smaller, but necessary connecting parts who give and take from the parent bank.

Money is paid into a London bank to the credit of the country bank, and is remitted to the country bank for the use of the party who resides in the country. Money is paid into the provincial banks to the credit of the agents for the use of persons residing in London or elsewhere, or by remitting to the party a bill drawn by the local upon the London bank. Money is remitted from one town to another by paying the money into the bank established in the place to which the money is to be remitted, or by sending direct to the party a bill drawn by the country upon the London bank.

Banks do not give rise to trade; it is the trade that fosters the establishment of banks. After their introduction industry is extended, In the "far West," when establishing what the Americans call a "city," there are always two buildings which stand out prominently in the newly laid out streets; they are the newspaper office and the bank.

A merchant in Manchester may purchase goods from a manufacturer, and ship them abroad. The manufacturer may on the same day draw a bill for the value of the consignment, and have the bill discounted. This operation can be repeated so long as the merchant's credit is good. The manufacturer is put in possession of cash. If there were no banks, he would have to wait probably one or two months for his money. "Deposit receipts," or "dead accounts," are moneys which are lodged in the banker's hands until the depositors have occasion to require them. They then produce their receipts, and the whole of the amount, or part, as they may desire, is paid them. Such sums are lodged for security and interest.

"Accounts current," or "current accounts," is the term used when persons place their money at the bank, and, in addition to security and interest, desire to make use of the bank as a means of facilitating their business transactions.

The difference between the terms at which bankers or a banking company borrow, and those at which they lend, forms the source of their profits.

I will endeavour to illustrate as simply as possible the mode of raising profits for a bank. If "A" lend me "B" (the bank) £100 for nothing, and (I) "B" lend that £100 to "C" at 4 per cent. per annum, than (I) the bank would make a profit of £4.

Again, if a person will take "my promise to pay" or "note," and bring it back in 12 months, and pay me £4 for it, just the same as though I had lent him £100 in cash, I shall gain £4. Further, if a man lodges £100 with me on condition that I will pay it to a client in London in 21 days, I shall make interest on the amount by lending it out until the time arrives for me to pay it, and the interest so made will be my profit.

If a banker employ only his real or own capital, he cannot expect to make much profit, because he can seldom get more than the market rate of interest. Against this he has to maintain his establishment. If the banker has not earned more after paying his expenses of working, &c., than he could have made by investing his capital elsewhere, he cannot be said to have obtained a profit. This, as you know, applies also to the merchant or to the manufacturer. The profits of a banker are in proportion to the judicious use of the money lodged with him. It is the collocation of these various small sums which would otherwise be unproductive in the hands of the multitude, which enables the banker to make advances to manufacturers, merchants, traders, and others requiring money for carrying on their business or commercial transactions.

If the banker find that too much money is accumulating in his coffers, he will lend it to other bankers, who may probably be able to find profitable investment for it. But he will retain a part of his borrowed capital in his till, by which he can meet cheques which may be drawn upon him and enable him to discount bills. A banker will allow overdrafts to his customers, sometimes without security if the amount be small, and the borrower stand in good repute, but more often on the deposit of deeds or mortgage, or under guarantee of the principal advanced, or assignment of life policies, &c.

The depositing of our funds with the banker relieves us of untold anxiety. Therefore a bank is a public institution of the highest value, all the Directors and Managers of which must be men of integrity and honesty, in whom the public have the greatest confidence. Banking is a subject worthy of the truest and deepest thought.

Having endeavoured to interest you with my subject, I can only hope that the imperfection of style, and deficiency of information, will be indulgently viewed by you, first, on account of the difficulties of the theme, and, secondly, the scarcity of resources at my command. I believe, however, that some of the thoughts to which I have ventured to give expression, will not be deemed worthless, but be taken as proofs of sincere interest in your society's work, and the spread of that knowledge which will tend ultimately to the furtherance of your usefulness, and to the maintenance of that high intellectual reputation which you have honestly

won by diligence and ability. I beg to thank you for the patient hearing you have accorded me, and in conclusion, would assure you that any services which I can, at any time render to you, will be cheerfully placed at your disposal.

Mr. C. R. Trevor rose to propose a vote of thanks to the lecturer, and in the course of his remarks he said that young men following the profession of Accountancy should become well acquainted with the various subjects appertaining to the profession, and of which the lecture this evening was one—and amongst other matters spoke of the question of light gold as being a serious item that would soon have to be faced. His own experience when counting over the gold at a certain bank at an audit a week or two ago was that for every £50 half-a-sovereign had to be added to make weight, and the question would soon naturally arise as to who would have to bear this loss. He trusted that it would not fall upon the banking interest, but be born by the Government, as the loss was occasioned by providing for the monetary circulation of the country.

Mr. J. B. Sutton (one of the successful candidates at the recent examination) rose to second the vote of thanks to Mr. Boardman, and spoke of the conciseness of the lecture, and asked for some information about the books of a bank. The President put the motion to the meeting, and it was carried with acclamation.

Mr. Abbott asked what book the lecturer could suggest bearing upon the subject of book-keeping for a bank.

Mr. Brooks A.C.A. expressed his appreciation of Mr. Boardman's interesting lecture, and spoke of the advantage it would be to Accountant Students' to read up about the opening of credits, bullion operations, &c.

The Hon. Sec. Mr. Piggott made a few remarks, when

Mr. Murray, after adding his testimony to the worth of the lecture, and making various remarks relative to the subject, called upon Mr. Boardman to reply.

The Lecturer said that he was deeply sensible of the flattering remarks he had heard, and would at some future time give a paper, treating more fully on the book-keeping of banking transactions; he referred to the subject of light gold and said that half-sovereigns are lighter than they used to be, and that £1 is put to every 200 half-sovereigns to make up the deficiency. In regard to any work bearing upon the matter of bank book-keeping there was a book written by someone in the London and Westminster Bank, but the subject was not so fully treated as it might have been. Replying to a question he said that several English and most Scotch banks issued notes. In conclusion, he wished the society every success, he had passed the said from the lower grades of the profession to the higher, and had the society's principles at heart.

The proceedings terminated about eight o'clock.

BIRMINGHAM ACCOUNTANTS' STUDENTS' SOCIETY.

THE FINAL EXAMINATIONS OF THE INSTITUTE.

The following paper was read to the members of the above Society, on the 12th ult., by Mr. F. W. Smyth.

It was with considerable reluctance, and not a little diffidence, that I accepted your committee's very flattering invitation to lecture to the members of our society. I say with diffidence, because, when a man consents to deliver a lecture, it is generally an assumption on his part that he knows a great deal more upon a given subject than his fellows do. Such is certainly not my own case. I cast about to find out if there were any particular subject, which is usually taken up by our students, which I could enlighten them upon to any considerable extent, and not having any such particular or pet subject, I was somewhat embarrassed as to what course to pursue. I recollected the advice given by a certain bishop to a young curate who was about to preach his first sermon, namely, to preach as if he had something to say, and not to preach because he had got to say something. The man who has to lecture upon something, is certainly in not so good a position as if he had something to lecture upon.

In the dilemma in which I found myself, it occured to me, that perhaps, that which you would all prefer to hear a few words from me upon this evening, would be my experiences in the Final Examinations of the Institute, in December last. I take it that the immediate goal at which the ordinary members of this society are aiming is the passing of the final examination, and perhaps I am right in concluding that the experiences of anyone who has passed that portal leading to membership of the institute, may not be without profit to those who have still to pass it. And here let me express an opinion which may or may not be shared by all of you, namely, that I think it is well for a student who is at all nervous to enter for his examination, if he be eligible, even if he fears the result, because the experience he will acquire will undoubtedly be of very great service to him the next time he goes up. He will very likely come to the conclusion that the capacity to do about four or five hours' work in two hours tells very considerably in the result. If he be a nervous man, he will acquire confidence. If, as may be sometimes the case, he is so unfortunate as to imagine that he knows more than he does, or that his professional education is complete, there is nothing like a stiff examination to bring him to his senses. And although I should be very sorry to say a word that would discourage any of you, I believe I am uttering the sentiments of all those who entered for the last examination in saying that it *was* stiff. Two hours in the morning and two in the afternoon, do not seem to be a very heavy tax upon one's energies, and yet, when the last afternoon's work was concluded, I venture to say that we had all come to the conclusion that we had had enough of it.

It is important to keep your head perfectly clear, and above all things to fight very shy of anything that may lead to a bad bilious attack.

If on reading through the paper before you, you believe you have not sufficient time to answer all the questions thoroughly, it is well to pick out those questions which you think you can answer the best, and to answer them well, than to answer the whole of the questions but indifferently.

If I may be pardoned for saying so, I would advise candidates while the examination is on, to keep aloof from theatres and such places of entertainment, because, I think that all their physical and mental energies are required for the work they have immediately in hand. Perhaps from these remarks you may imagine that I am treating the subject with too great solemnity, but I certainly hold to the opinions I have expressed. It is doubtless, not only to one's self, but also to one's principal and private friends, a great disappointment for a candidate to fail, for he is not only thrown back six months, which possibly may entail upon him expense and inconvenience, but he must also of necessity go through the best part of his reading again, and this is no light matter. Of course, with those who may elect to go up more for experience in a future examination, than with the hope of passing, it will be different.

You, all of you, doubtless know that some portion of the examination was conducted *viva voce*. Last December this was confined (as I am told was the case at previous examinations) to the subjects of Company and Bankruptcy Law. In my own case it was a very brief business indeed, and perhaps you may be inclined to smile if I may express an opinion that the *viva voce* portion of the examination may be partly intended to enable the examiner to form an idea as to the general style of a candidate. I should

imagine slovenliness in appearance or a disrespectful way of speaking, would tell against a candidate, but not being in the confidence of the examiner, I can only express an opinion on this point.

Having made these few preliminary observations, which I trust you will have taken in good part, I will now proceed to speak of the examination itself, and, first of all, let me observe that no amount of book reading in the world, will avail you without a thorough course of practical and constant experience. Without such experience and a thorough knowledge of the principles of book-keeping and double entry, you had better not waste your own time, and that of the examiners. Book-keeping is the foundation of our profession, and everything that we do hangs more or less upon it. A knowledge of certain branches of the law is essential, but we should remember that accountants are not expected to be solicitors or barristers, and therefore the matter to which their first and principal energies should be directed is book-keeping, and the preparation of accounts.

Demosthenes said, that action was the first, and the second, and the third part of oratory. So book-keeping may be said to be the first, and the second, and the third part of accountancy. In few other callings does the maxim "practice makes perfect" hold more good; for practice and experience are positively the only means by which book-keeping may be learnt.

Now, the examiners, very properly expecting a great degree of proficiency in this subject, their questions on this head have always presented no little difficulty to candidates. Not the difficulty of answering them, but the difficulty of answering them in the time allowed for the paper. You will find they occupy every moment of two hours of rapid work, even assuming, that the opening out of private and personal ledgers, and partners' capital accounts and the preparation therefrom of gross and net trading accounts, and balance-sheets, is work which is very familiar to you, which requires no time for thought as to how to arrange it, and which you would proceed with, with as little difficulty as you would with the writing out of the alphabet of the English language.

The examiner was good enough to say that no time need be spent upon errors which may have occurred in the trial balance; he would overlook them. My belief is, that going over the candidate's work, he has in his mind the conditions under which the answers were written, and that he considers that if, in two hours, a candidate has tackled and handled properly and skilfully, a set of accounts which are perfectly new to him, he has at least shown that he knows something of his work.

Now as to auditing. In all the final examinations which have been held, the searching questions asked in this paper have been calculated to test to the very utmost the extent of the candidate's knowledge. I think, however, they are fair questions, and need not cause the least anxiety to any of you who have had the advantage of an audit practice and who have conscientiously given your minds to the work, and let no opportunities pass by of thoroughly mastering the right principles of preparing trading accounts and balance-sheets, and of the most efficient means of effectually auditing them. We ought, therefore, willingly and cheerfully to concede to the examiners the utmost right to use their prerogative in making the conditions by which candidates shall pass in this paper, such as can only be performed by those who possess very intelligible and accurate principles of the subject. I would recommend students to read carefully the lecture which Mr. Slocombe delivered to this society in May last, on the subject of Auditing; the lecture needs no word of praise from me, but I will only remark that it contains answers to the greater part of the questions, that have as yet been asked.

The questions on Bankruptcy Law, set last December, related partly to an Act which was then dying a lingering death, and partly to one which was then coming into operation. Besides this, we were asked by the examiner to give the rules as to several matters under the old Act and the analogous rules in the new Act. As far as I could learn, all the candidates did very fair papers on this subject. I believe I am right in assuming that the future questions on this head will be confined to the Act of 1883, and therefore there is nothing to prevent us from making ourselves fully conversant with this Act, watching carefully the developement of its provisions, and taking notes as we go along, of all the results arrived at by the construction placed upon its several sections.

Apart from Bankruptcy Law, being a subject upon which our profession demands from us intimate knowledge there are few of us, I should imagine, who do not take a lively interest in an Act which many people believe leads us back to a condition of things similar to that which existed previous to the Act of 1869, a further proof we might say, that "history repeats itself." None of us have any practical knowledge of the results then obtained, but bye-the-bye, perhaps our President may find it in his power to give us some of his experience of those times, and a comparison of them, with the results of the present Act, could not fail to be an interesting subject.

There are few questions on Company Law which a careful reading of Buckley's fine work on these Acts will not give us the materials for the answers, but I should like to remark on this subject, that candidates from the provincial towns will always be placed at a slight disadvantage in regard to the questions upon the practice and work of liquidations in Chancery. Here in Birmingham, we have no High Court of Justice, Chancery Division, and no Chief Clerk, and the principal portion of work of attending appointments before those functionaries is, in most cases, performed by agency. The questions, though, on these points that have as yet been asked are few, and are not likely in the case of provincial candidates, to prejudice the result.

There is no study that presents so much interest to us as Company Law. The principal Act of 1862 is, as you know, divided into parts, and the obligations placed upon promoters, and directors, and the powers given to the latter, and also the protection and privileges afforded to shareholders are therein fully set forth, and together form a subject which is continuous and unbroken.

As to the rights and duties of trustees, liquidators and receivers. These questions will, in future, relate chiefly to trusteeships under the Bankruptcy Act of 1883, and the liquidation of public companies. These are branches of the Law upon which candidates are expected to have a pretty accurate knowledge, for the duties of both the officers I have mentioned, carry with them not a little responsibility. In the Liquidation of companies, we have voluntary windings up, windings up under the supervision of the Court, and compulsory windings up by the Court, and as you know the practice differs considerably in each. Such questions as

The rules of set-off.

The rights of distress.

The examining and admitting of claims.

The various kinds of secured creditors and the payments which a liquidator may be justified in making to them.

The intricate points involved in the settlement of lists of contributories, and

The responsibilities of liquidators in carrying on the business of companies during the liquidation, are some of those which have found a place, or may do so on the examination papers. I do not gather, though, that the papers have occasioned candidates who have had the benefit of experience in this work, any considerable trouble.

Passing to the paper on the subject of The Adjustment of Partnership and Executorship Accounts, I hope no one present here, will be called upon to handle so difficult a paper as the one set last December. I have reason to believe that not more than three of the whole candidates

answered more than seven out of the ten questions. Nearly all of these questions were difficult to a degree, and treating them with all the brevity and conciseness possible, I found it impossible to answer more than seven of them.

The Lecturer here read and commented upon several of the questions asked in this paper, and stated that in one question alone, there were four questions, each requiring careful answering, and a most thorough knowledge of partnership law from the commencement to the dissolution and final winding up.

I had the advantage of having read Lord Justice Lindley's work on this subject, and I would most strongly advise every student to read it. There is much in it that probably little concerns us, and may be passed over, but the questions which in Pollock's Digest are merely mentioned, are treated by Lindley in an interesting and thorough manner. He has traced the law of partnership from its infancy to its now nearly perfect development, and he deals completely with the difficult questions which arise on the dissolution of a partnership. Beyond this he has taken the trouble to draw up accounts, to shew the manner in which the assets are administered, the order of priority in which the liabilities are discharged, especially with regard to the division of profits or losses, and the final adjustment of the partners' capital and loan accounts. Lord Justice Lindley, in his work has shown why, the different changes in Partnership Law have been made, and what were the manifest errors of principle which existed in this branch of the law previous to the passing of the 1865 Act. He also deals with the questions which arise on the introduction of a new partner, or the retirement of one and the substitution of another, and how far creditors by the continuity of their transactions with the firm may lose their rights or claims against the outgoing partners. If you have not had the advantage of perusing many deeds of partnership, you will find a chapter in Lindley's work dealing with the clauses usually found therein, their effect, and the utility of them. I should be very pleased for myself if our committee were able to promise us a lecture on this subject, because you will readily see from the questions that have been asked that it is not an easy one.

But few questions, and those comparitively simple, have been asked upon arbitrations and awards, and the papers on Mercantile Law will mostly be answered from a careful reading of Smith's work on this subject, the book recommended by the Institute ; not forgetting though, that the new Bills of Exchange Act and the Bills of Sale Act form no inconsiderable part of these subjects.

In an examination of this kind there is one accomplishment which, of all others, is of great value to candidates. I mean "composition" the great art of expressing correctly, and with brevity, answers which require very carefully wording. We may have the correct answers in our minds, and yet produce an answer on paper which appears blunt and unfinished, and perhaps from some important omission may have a very vague meaning. There is no better rule than to practice this in the preparation for the examination, for besides helping us to form the composition for concise answers, it will be a wonderful help to the memory, impress us with the principles of fact, the bare reading of which would not leave nearly so vivid an impression on our minds. From what I have said before as to the very rapid rate at which the questions have to be answered, you will readily see the importance of this point. And another suggestion I would make, always be careful to embody the question in the answer you give.

I have been comparing the results of the last final examination with the one held in June last, and it certainly finds us food for reflection.

Last June nearly 80 per cent. of the total number of candidates were successful, but last December of the total number presenting themselves, 52 per cent only were successful ; but even this is not the most serious aspect of the question. In June last, the council awarded two prizes for excellence, and no less than three certificates merit. For this examination no prizes have been awarded and only one certificate of merit. We have therefore, a choice of two propositions.

1. That the examinations have become much more severe.

2. That the capacity and intelligence of the candidates have sensibly diminished.

I will not venture upon an opinion as to which of these two propositions is the correct one.

I will say, candidly, I think it is a great mistake to suppose the work of preparing for these examinations is easy of accomplishment. The questions have a very wide range over a great variety of subjects, and consequently we must regard them as making the heaviest demand upon our principles, our understandings, and our knowledge, we have to take a comprehensive view of every subject connected with mercantile adventure, and to accountants, of all other persons, no knowledge is superfluous. But I am most firmly of opinion, and would say to any of those who are qualifying themselves, that if they are persevering in their work, and strive to master the problems and difficulties which day by day present themselves to them in their practice, there is nothing to prevent them passing the examination. It depends entirely upon themselves, for vigilant observation of all that passes around us is, in any pursuit, the best of all instructors.

I am thankful in being able to testify to the great assistance I received in my preparation for my examination from my membership of this society, and from my attendance at the classes which were organised by the Local Society of Chartered Accountants. and so ably conducted by Mr. Russell. Mr. Russell takes a deep interest in his work, and certainly spares no effort to render his meetings as advantageous as possible to those who read with him, and I am sure that all the late Birmingham candidates will join with me in this acknowledgment.

I ought also to mention that every attention was shown to the convenience of candidates at the examination and every requisite provided, and we met with much courtesy from those members of the Council who conducted the examination.

We have in this society the most capable machinery for producing good candidates. We have had lectures of no mean order, and the debates which our committee have arranged are calculated to be of considerable use to us. I wish the committee could even go farther, and see if they could find the time and opportunity for mock examinations in some of the subjects. Students would find it good practice, and it would give them a great deal of confidence, to answer as well as they are able, all the examination papers, remembering that two hours is the time allowed for each, and that in the actual examination, they would only see the papers the moment they have to be answered.

You do not need me to point out to you that these examinations are worth trying for, and the certificates of having passed, worth having. The very existence of our society is a distinct recognition of this principle, that we desire for ourselves to show the public that we are earnest in our work, and desirous of fully qualifying ourselves on those subjects upon which they ask our advice, and for which they require our services.

Those of us who have passed will ever be students, for of accountancy it can never be said that it is fully learnt, there is the never ending work of bringing all our knowledge into practical use, and I believe that even our president would be slow to admit that that goal is ever reached when we may rest upon our laurels.

I sincerely hope for the continued success of our society, remember that success in these examinations brings with it certain reward and much gratification, for as clerks we have many opportunities of gaining the confidence of client's ; and so of maintaining the credit and honour of the office to which we belong.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES.

INTERMEDIATE EXAMINATION, DECEMBER, 1883.—BOOKKEEPING.

(Continued from our last issue.)

8 *Dr,* PROFIT and LOSS. *Cr.*

1883.	fo.	£	s.	d.	1883.	fo.	£	s.	d.
Dec. 1, To trade expenses..	10	2,000	0	0	Dec. 1, By gross profit goods account	5	7,000	0	0
,, ,, Reserve discount account	9	1,025	0	0					
,, ,, A. Interest on capital..	1	250	0	0					
,, ,, B. do. do.	2	125	0	0					
,, ,, A. Capital accout, half profit ..	1	1,800	0	0					
,, ,, B. do. do.	2	1,800	0	0					
£7.000	0	0			£7,000	0	0.		

9 *Dr.* RESERVE DISCOUNT ACCOUNT. *Cr.*

1883.	fo.	£	s.	d.
Dec. 1, By profit and loss	8	1,025	0	0

10 *Dr.* TRADE EXPENSES. *Cr.*

1883.	fo.	£	s.	d.	1883.	fo.	£	s.	d.
Dec. 1, To sundry creditors	6	2,000	0	0	Dec. 1, By profit and loss	8	2,000	0	0

Messrs. A. and B.

BALANCE SHEET. 1st December, 1883.

LIABILITIES.				ASSETS.			
To sundry Creditors	39,000	0	0	By sundry Debtors, considered good	41,000	0	0
,, Reserve Discount account, 2½ per cent. on £41,000 ..	1,025	0	0	,, stock-in-hand	3,000	0	0
,, A. Capital account	12,050			,, Business premises (Qy-less—per cent. written off) ..	7,000	0	0
,, B. do. do.	6,925	18,975	0	0 ,, Cash at Bankers	8,000	0	0
	59,000	0	0		59,000	0	0

(To be continued.)

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THE

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A MEDIUM OF COMMUNICATION BETWEEN ACCOUNTANTS' CLERKS.

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THE

Accountants' Students' Journal.

APRIL 1, 1884.

NOTICE TO SUBSCRIBERS.

With the present number the first volume of the *Accountants' Students' Journal* is completed, and its success has been beyond our most sanguine expectations. When originally projected we intended to confine ourselves to a 16 page issue, but the quantity of important matter it has been impossible to exclude — owing partly to the commendable activity of the various Students' Societies—has obliged us to issue numbers of 20 pages and upwards each month. As we see no prospect of reducing the size of the numbers we feel sure our subscribers will not think we are asking too much when we raise the subscription to 6s. per annum, post free—the price for single numbers being raised to 9d.

AUDITING.

Among the duties of an accountant first and foremost may be placed that of auditing, and the attainment of a correct and complete knowledge of the duties appertaining to that branch of the profession, should be a most important object to all professing to enter the ranks of accountancy. Much may of course be learnt by books, but it is only by practical acquaintance with the varied requirements of different classes of accounts and book-keeping that perfection can be attained, and that is only to be arrived at by carefully noting the various instances which come under the student's notice. A few general hints and broad definitions may, however, save a considerable amount of labour in wading through volumes which may be only partially understood by the reader, and, hoping to save that time and trouble to those studying, we will endeavour to point out a few things to be avoided and others to be carefully remembered. Auditors may be divided into two classes :—

(1). The professional.
(2). The amateur.

With the latter, as the least important, we will deal first. The ranks of amateur auditors are largely swelled by a number of gentlemen, who, having no business of their own to attend to, kindly devote their time to that of others. Being very likely men of independent means they become shareholders in various small companies, and, by attending the meetings regularly, questioning the chairman as to various small items of expenditure; and making themselves prominent on every occasion lead many of their fellow shareholders to believe that they are very clever fellows and competent to look after the interest of all, consequently when a vacancy occurs they are elected to the post of auditors. When elected, if they have to deal with a chairman, or secretary, of imposing manners, who either sufficiently smiles at any remark they may make as showing ignorance of which he did not deem them capable, or blandly gives them credit for knowledge they do not possess, they rapidly become nonentities and sign in lamb-like style any accounts that are submitted to them. These gentlemen may be, and are, in many instances quite competent to judge whether figures are correctly cast or even carried to the debit or credit side of the balance sheet; but when the question arises as to whether an amount should be charged to capital, or expenditure, they are quite abroad; and when officials, desirous of showing a good balance sheet, quietly charge capital account with expenditure, they, in their ignorance, mildly acquiesce rejoicing over the large dividend proposed to be paid. Sooner or later the day of reckoning comes, and then shareholders bless the amateur

auditor for allowing them to be hoodwinked in a manner the professional auditor would have detected at once. The amateur auditor is also very great on vestry and corporation accounts; but there again he allows himself frequently to be led from the strict performance of his duties, and, owing to that laxity, the frequent cases of embezzlement and defalcation we constantly read of in the papers occur. The amateur auditor is, however, rapidly disappearing and will, no doubt, like our friend the dodo of zoology become extinct.

It is with the professional auditor and his duties, we have more particularly to deal.

Although practically the same as those undertaken by the amateur, they are in their results very different; as, thoroughly knowing his duties, he avoids those very pitfalls into which the amateur falls.

The duties of an Auditor are, as our readers are all aware, to examine and pass accounts, and it is in that examination that the professional auditor shows his superiority. A few broad lines may be usefully laid down to guide young beginners in auditing.

(1). Take nothing for granted, but examine everything *ab initio*.

(2). In case of the slightest discrepancy enquire closely into every circumstance, and if not satisfactorily explained redouble your vigilance.

(3). Take no man's integrity for granted, you have to deal with actual facts, and a man's personal character has nothing whatever to do with his accounts.

A case quite recently occurred in which a rate collector paid some money into the bank on Oct. 1st, but entered it on his books as September 29th—now had that discrepancy been noted and enquired into immediately it would have been found out that he borrowed that money to make up a deficiency, and his career would have been stopped, instead of which it was not noticed, and ultimately his deficiency was very much larger.

The balance sheet is, of course, the final outcome of the audit, and the most important book is the Cash Book, with this, however, our space will not allow us to deal in this number, but next month we will point out the course to be adopted in examining this book.

BOOK-KEEPING—*Continued.*

These balances may be taken out under appropriate lists or schedules, such as Debtors, Creditors, Bills Payable, etc., and prove very convenient in making up the Balance Sheet if taken out after all the adjustments of Profit and Loss, Stock-taking, etc., have been made; on the other hand if the balance does not come out right (to use an Irishism) it affords no indication as to where the error is likely to be found, and *checking* becomes a necessity. There is one other feature in favour of this method and that is that accounts can be ruled off as they balance, whether weekly or monthly, or less frequently.

Trial Casting.

This method is far less common, but well repays the slight extra trouble, provided the book-keeper can be induced not to constantly close or bring forward the balances on his accounts, as some book-keepers will persist in doing. In lieu of so closing all that is required is to put down in the particulars column the monthly totals, debit and credit, in small red figures, and only close or bring down balances once a year, after they have been finally adjusted and agreed. The following shows the working of a trial balance based on the books referred to in the direct system :—

Proof Casting.

	Lr. Dbtrs.	Lr. Crdts.
Cash Book, No. 1, received	..	£10,000
Do. ,, paid	£8,000	
Do. ,, 2, received	..	20,000
Do. ,, paid	17,000	
Bought Book Wholesale Dr. and Cr.	10,000	10,000
Sold Book do. do.	15,000	15,000
Bought Book, Retail do.	5,000	5,000
Sold Book do. do.	12,000	12,000
Bills Payable, Wholesale do.	5,000	5,000
Do. Retail do.	1,000	1,000
Bills Receivable, Wholesale do.	6,000	6,000
Do. Retail do.	2,000	2,000
Adjustment Book do.	2,000	2,000
So that the Ledger Credits should show		£88,000
And the Ledger Debits	£83,000	
The difference being the Cash in hand, viz. .. .. C. B. 1, £2,000		
C. B. 2, £3,000		
	£5,000	
	£88,000	£88,000

On examining the Trial Casting we find it comes out as follows, viz. :—

	Debits.	Credits.
Creditors Ledger, Personal		£15,000
Debtors' do. do.		23,000
Bills, Payable do.		6,000
Do. Receivable do.		5,000
NominalLedger		28,500
Private Accounts Ledger		10,500
Showing that the Credits agreed		88,000
Creditors Ledger	£12,000	
Debtors do.	27,000	
Bills Payable do.	4,000	
Do. Receivable Ledger ..	8,000	
Nominal Ledger	29,500	
Private accounts Ledger ..	2,000	
While the debit side shows ..	82,500	
A disagreement of	500	

To make up the amount at which it should stand, viz. ..	83,000
And which with the Cash in hand	5,000
Would balance the Books ..	£88,000

It would, therefore, be unnecessary to check the credit side, and our enquiry would be directed to tracing out the error. The Bills accounts would be verified by the outstanding bills, which would show the balances arising thereon. The private accounts would be easily tested, and our next step would be to test the nominal accounts on which our common sense would enable us to detect any discrepancy. In this case it arose from the neglect to debit an item, which had been credited to the private accounts for interest on capital. Had the error not lain there it must have lain in the debtors accounts, and the probability is that an inspection of them would also enable us to detect a discrepancy, and thus avoid the necessity of checking them.

It will be readily seen that more labour is involved in this method, because the balances are not struck as they must be before the balance sheet can be made out. We must call attention to the *Proof Casting* made up from the totals of the entries, whereby we obtained this effective check upon the clerical work of posting, but it must not be assumed that because the books balance no error lies in them. Entries may have been wrongly treated, and therefore should always be examined with a critical eye. A dishonest but competent book-keeper will generally produce evidence that his books "balance to a penny" for that reason, and in protection of our own reputations, we should be very reluctant to accept any trial on proof casting that we have not fully verified. The difference between a Trial Casting and a Trial Balance will be seen by comparing the former with the following summary in which the same figures are treated.

(To be continued.)

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

At a meeting of the council, held at the offices of the Institute, 3, Copthall Buildings, E.C., on the 5th March, 1884, the following applicants were admitted Associates;—

Bond, John Frederick, clerk to J. Holah, 6, Moorgate Street, E.C.

Clayton, Charles, clerk to H. F. Knight, Devonshire Chambers, Bishopsgate Street, E.C.

Kirkham, Arthur, clerk to P. & J. Kevan, 12, Acresfield, Bolton.

Parker, Frederick Ernest, clerk to W. F. Moore and Sons, 9, Chapel Street, Preston.

Plender, William, clerk to J. G. Benson, 12, Grey Street, Newcastle-on-Tyne.

Smith, Clare, clerk to Tribe, Clarke and Co., 2, Moorgate Street Buildings, E.C.

The Examination Committee reported that they had appointed Mr. P. Magnus examiner in the preliminary examinations for the ensuing year, and Mr. E. F. Turner and Mr. F. Whinney, jun., examiners in the legal subjects of the Intermediate and Final Examinations for the ensuing year.

On the recommendation of the examination committee, the dates of the next examinations were fixed as follows:— Preliminary Examination 9th, 10th and 11th June, 1884. Intermediate Examination 16th, 17th and 18th June, 1884. Final Examination 23rd, 24th and 25th June, 1884.

CHARTERED ACCOUNTANTS STUDENTS' SOCIETY OF LONDON.

BANKRUPTCY LAW.

By Richard Ringwood, Esq., B,A., Barrister.at-Law.

The following is a verbatim report of a lecture on the above subject, recently delivered by Richard Ringwood, Esq., B.A., the well-known author of several works on Bankruptcy Law, before the Chartered Accountants' Students' Society of London.

The Lecturer, having been introduced by the Chairman, said:—

The subject on which I have the honour to lecture to-night is one that has for many years engrossed a great deal of public attention, and is likely to be eagerly discussed for some time to come. For some reason or other we have not been happy in our attempts at bankruptcy liquidation in this country, and so signally unsuccessful have been the different statutes passed from time to time on the subject, that it is almost a wonder that any man of established reputation as a statesman, should risk the loss of that reputation by associating his name with a Bankruptcy Act, unless indeed he should be in such a position that he can count on being raised in a short time to the woolsack or the Bench, where, unless he happens to be a very obstinate man, he can easily forget his mistakes and failures. Mr. Chamberlain is certainly a statesman of eminence and reputation, but he has courageously devoted himself to the performance of a task where so many of his predecessors have woefully failed.

The new Act is now fairly started. At present both debtors and creditors seem to be a little shy of it, but this may be due to the fact that creditors are reluctant to move until they can see from a few cases how the act works, and not a few debtors, I imagine have a wholesome dread of some of its provisions. Its success must largely depend upon the ability and integrity of the Official Receivers, and though I think most people will admit that those gentlemen were honorably and fairly selected, yet I consider it is a great pity considering what their duties are to be, that the selection was not made mainly, if not altogether, from members of the Instiute of Chartered Accountants. Most of the duties to be performed by the Official Receiver are duties that would more aptly be performed by accountants than by solicitors, on whom, I believe the bulk of the appointments have been conferred. For example the examination of the debtors books and his trading accounts is a very important part of the Official Receiver's business, and I take the liberty of saying that any respectable accountant could perform this task immeasurably better than any solicitor. Anyone who knows the immense strides which you, gentlemen, have made of late years in public estimation and education will agree with me in saying that there could have been no difficulty in choosing excellent Official Receivers from amongst your number for all the appointments that have been made.

Before discussing the Act of 1883, I should like to give you a very slight sketch of previous Bankruptcy Acts.

The earliest statute on the subject was, I believe, passed in 1542 (34 and 35 Henry VIII. c. 4.) The quaint preamble will show you the object of the Act which was, in fact, passed against fraudulent debtors. It begins thus .—

> "Where, (the old form of whereas) divers and sundry persons craftily obtaining into their hands great substance of other mens goods, do suddenly flee to parts unknown, or keep their houses, not minding to pay or restore to any their creditors, their debts and duties, but at their own will and pleasure consume the substance obtained by credit from other men for their own pleasure and delicate living against all reason, equity, and good conscience."

And then the statute goes on to enact that the Lord Chancellor and other high officials should have power and authority, upon complaint made in writing by any person aggrieved, to take orders and directions, as well with bodies of such offenders, as with their lands, chattels, goods, wares, merchandise and debts, and to cause such lands &c. to be sold for distribution of the proceeds amongst the creditors. I need not allude to the other provisions of that Act. Suffice it to say that it does not appear to have been very successful, for the next Act on the subject (13 Elizabeth c. 7) recites that notwithstanding the statute of Henry VIII. made against bankrupts, those kind of persons have increased, and still do increase, and are "like" more to do if some better provision be not made for the repression of them. This statute of Elizabeth was confined to traders, and the effect of it was shortly this: "If a trader did certain things he was to be deemed a bankrupt, and the Lord Chancellor might appoint Commissioners to deal with his person and property, and these Commissioners were given a power, which is still possesed by Bankruptcy Courts, of examining persons suspected of having any such property in their hands.

We may pass over the statute of 1 James I., c. 15, and come down to 21 James I., c. 19, of which I shall allude to two sections only, one of which enacted that if a bankrupt concealed his goods, or could not give a satisfactory reason why he became bankrupt, he might be indicted, and on conviction, set upon the pillory and lose one of his ears. That will show the spirit of the old Bankruptcy Law. The other section states the circumstances under which goods of third persons in the hands of a bankrupt as reputed owner of them, will pass to his creditors and state the law on the subject substantially in the same terms, as the Act of 1883.

The next statute to which your attention may be directed, is the 4 and 5 Anne, c. 17 in which we witness a new departure in Bankruptcy Law. The previous statutes were of a quasi-penal character, but by the statute of Anne, a bankrupt who duly delivered up his property and otherwise complied with the law, was enabled, with the sanction of a majority of his creditors, to obtain from the commissioners a "certificate of conformity," which had the effect of discharging his person, and releasing his future acquired property from the debts existing at the time of his bankruptcy. What corresponds to this under the Bankruptcy Act 1883, is the "order of discharge," which as you know releases a bankrupt from provable debts, except crown debts, debts incurred by fraud, or fraudulent breach of trust to which he was a party, or of which he has obtained forbearance by his fraud.

Passing over the Consolidating and Amending Act, 6 Geo. 4. C. 16, we come to 1 and 2 Will. 4, c. 56, which established a regular Court of Bankruptcy, and substituted for the commission of bankruptcy formerly issued by the Lord Chancellor, what was called a *fiat* which was in its turn subsequently abolished. By the same Act of Will. 4, official assignees were appointed, in whom, along with the assignees chosen by the creditors, the property was vested. By 5 and 6 Vict., c. 122, certain permanent commissioners were appointed to administer the law in country bankruptcies, in the seven district courts which were established for such cases.

The only other statutes to which I need direct your attention, before coming to the Bankruptcy Act, 1883, are the Bankrupt Law Consolidation Act, 1849, and the Bankruptcy Acts of 1861 and 1869. The first of these Acts abolished the *fiat*, which succeeded the previous commission of bankruptcy, and substituted for it a petition for adjudication. A debtor could also present a petition for adjudication against himself, and he might do the same by the Act of 1861, but under the Act of 1869, the right to present such a petition was confined to creditors, but restored again to the debtor under the Act of 1883. There was also a provision in the Act of 1849, by which certificates of conformity were divided into three classes; the first certified that the bankruptcy had arisen from unadvoidable losses and misfortunes, the second, that it had not arisen wholly from unavoidable losses and misfortunes, and the third that it had not arisen from unavoidable losses and misfortunes. As however a certificate of any class would discharge a bankrupt from his debts, this classification did not have much effect as encouraging honest trading or terrifying the dishonest debter.

All these statutes with the exception of the first, that passed in the reign of Henry VIII. down to the Act of 1861, were applicable only to traders. Non-traders unable to pay their debts could not come or be brought into the bankruptcy court, but might get relieved from their debts in the Insolvent Debtors Court, under the provisions of various Acts of Parliament relating to insolvent debtors. By the Act of 1861, this last mentioned court was abolished, and non-traders became liable to the Bankruptcy Laws and have so continued under the subsequent Acts of 1869 and 1883. The same Act of 1861 substituted an "order of discharge" for the certificate of conformity, and it also contained a provision enabling a debtor, without going into bankruptcy, to get a majority of three fourths in value of his creditors to assent to a composition, which would bind a dissenting minority. This provision was however very much abused, and many fraudulent compositions were effected under it, and chiefly for this reason it was deemed necessary to pass another Act in 1868 to enable the creditors to get a full discovery of all the debtor's assets and liabilities and to compel others assenting to a composition to prove their debts by affidavit. The Act of 1861 like many of its predecessors, contained provisions for the punishment of fraudulent debtors. Provisions of this kind were not to be found in the Act of 1869, but they were contained in the Debtors Act which was passed in the same year, and by the Bankruptcy Act 1883, debtors may be punished for misdemeanors committed under the Debtors Act or under the Bankruptcy Act.

It will now be convenient to retrace our steps a little to follow the fortunes—or misfortunes—of the system of official administration which was introduced by Lord Brougham's Act, in the reign of Will. IV. providing for the appointment of official assignees. The appointment of these official assignees for the first time introduced the system which has now to some extent been reverted to, I mean the official administration of the property of a bankrupt or insolvent debtor. Possibly some hesitation was at first entertained about the advisability of the system, for as a matter of fact, under Lord Brougham's Act the official assignees were attached only to the London Bankruptcy Court. Some nine years afterwards a Royal Commission sat to consider the subject of bankruptcy, and the result of its sittings was, that the system of official administration was considered so successful, that by 5 and 6 Vict. c. 122, certain permanent commissioners were appointed to administer bankruptcy law in country bankruptcies in the seven district courts which I have just mentioned. Here,

then, was a system of officialism which had first been tried in London for some years, and enquired into and reported favourably upon by a Royal commission, and so successful was it in its working that it was afterwards spread all over the country. We find next, that when it had been five years established in the country, a select committee was appointed in 1847 to investigate the working of the system, and this committee reported in its favour. Again in 1849 another committee sat on the subject, and they also apparently considered that everything was going on satisfactorily as regards special assignees, for the Act that followed their report, viz., the Bankruptcy Law Consolidation Act 1849, left the official assignees still in their former position. We find with surprise then, that in 1861, after so many years from their first establishment and after the Royal Commission and Select Committees had reported so strongly in their favour, official assignees had fallen in public estimation, and loud grumblings against them and their system were heard from the mercantile community. Accordingly though they were not abolished by the Act passed in that year, their duties were dimished and their powers materially curtailed. For example, as soon as the creditors appointed their assignee, the official assignee could no longer take any active part in the realization of the estate, except to collect debts not exceed ing the amount of £10. But a worse fate befell them. In 1864 another select committee was appointed, and so low had official assignees fallen in public favour or so many abuses had grown round their system, that this committee recommended that the sysem should be abolished altogether. However it takes a long time to pass a Bankruptcy Act, and though the report was published in 1864, the Act which abolished official assignees was passed in 1869. It was natural that the powers of that Act should rush into the opposite extreme and consequently the duties, which formerly fell to the official assignees, were now with great injustice thrown upon the creditors. Now that the Act of 1869 has passed away, when we contemplate its prominent features, we cannot feel surprised at its utter failure. It is not reasonable to expect that a creditor who has the misfortune to have one of his debtors adjudicated bankrupt should be willing to lose his valuable time, lessen his dividend, and possibly incur further expense by attending meetings, examining the debtor, investigating his statement of affairs, and bringing the machinery of the criminal law to bear upon those that are guilty of fraud. Not only was a creditor under the 1869 Act expected to do all this, but he has often to wage an unequal contest against a trustee, friendly to the debtor, and a ring of so-called creditors, bribed to support the debtor through thick and thin. Of course this system could not last, and so the Act of 1869 has gone over to the majority, leaving sad recollections at the mercantile world, and many volumes of useless cases to the lawyers, and bequeathing to the Bankruptcy estates account many millions which ought years ago to have been distributed among creditors.

The government then, in introducing the present reform, could start with these proportions. The system of officialism had been tried, had existed for some years, and eventually had been found wanting. The system represented by the Act of 1869 had not only fallen into contempt, but the working of the Act itself had raised a storm of indignation.

Now it must be admitted that the system which the official assignees represented, existed for a long time—for a bankruptcy system—and evidently at first gave considerable satisfaction to creditors, including the mercantile portion of the public, and the question has again and again been asked what was the reason for its decline in public favour and what caused it to be first condemned, and then abolished. The present government, in passing the Bankruptcy Act, 1883, think they have discovered the answer to that question, and hope that the knowledge which they have gained of the causes of the failure of the former system has enabled them so to draft the present act that those causes will no longer exist, and that the Bankruptcy Act, 1883, providing for the appointment of Official Receivers, will have a longer life than its predecessors; they came to the conclusion that it would not do in 1883 to restore the old system, if for no other reason, because public opinion was opposed to such a change. But they have introduced a system of officialism, which, guarded as it is by the supervision of a responsible government department, will, it is hoped, create a new era in Bankruptcy administered.

Whilst the Act still leaves the collection and distribution of the bankrupt's estate primarily to the creditors themselves, there is to be always such an amount of official supervision as will protect a minority of creditors, ensure a thorough investigation of a debtor's affairs, and enforce honest dealing on the part of all who are engaged in the administration of the estate. Roughly speaking, the broad features of the Act are these:—In every case where a petition is filed, there must be a thorough and searching enquiry into the circumstances of the debtor, who, by coming or being brought into the Bankruptcy Court, asks to be relieved from his debts by paying less than twenty shillings in the pound. In the next place, there must be a public official to undertake this duty, and report the result of his investigation, and thirdly, this official must be responsible to a department of State, which of course is in its turn responsible to Parliament. We all know what occurred under the Act of 1869, specially during the last few years—A debtor filed his petition, a meeting took place, and often a majority of bogus creditors passed a resolution accepting a mere nominal composition, and thus binding all the *bona fide* creditors whose names and addresses and the amount of whose debts were set out in the statement of affairs. If the debtor could not succeed in getting a composition accepted, very often what was generally far worse occurred, *i.e.*, liquidation by arrangement, the close of which as well as the discharge of the debtor, the release of the trustee, and the audit of accounts were left to the so-called creditors, and were not to be controlled by the Court or other authority. In addition to that, where the creditors did not appoint a bank, the trustee might pay the money into his own bank or keep it in his hands, the more stringent provisions of the Act of 1869 relating to funds in the hands of trustees in bankruptcy, having been held not applicable to trustees in liquidation. But you will say, what did the registrar do when these fraudulent resolutions for liquidation by arrangement or composition were brought to him for registration? Well, the answer is, that the registrar did nothing and could do nothing. His duty was to see that the requirements of the Act had been complied with, *i.e.*, that the meetings of creditors had been properly convened and the resolution passed by the proper majority. He could refuse to register if the statement of affairs were not in accordance with the Act, and did not disclose in the proper form the whole of the debts and assets, distinguishing between those that were joint, and those that were separate; or if the debtor did not set out his proper address. He could refuse to register if the debtor did not (as the Act required him) attend the meetings of his creditors, and answer proper questions put to him at those meetings, or if the resolutions were manifestly passed not *bona fide* in the interests of the creditors, but out of kindness to the debtor. But unfortunately the registrar had no power to refuse registration on the ground of fraud, and the consequence was, that if a creditor desired to challenge the registration of the resolution on that ground, he was obliged to go to the expense and risk of moving the court to vacate the registration. You see the difficulties that lay in his path, and one is not surprised that many a dissenting creditor who knew that a gross fraud had been perpetrated, preferred to put up with it and accept his shilling in the pound, or less, instead of engaging n the thankless task of fighting single handed against the debtor, backed up by an unscrupulous gang who were willing to lend themselves to any fraud. One cannot help regretting that the registrar and the courts did not attempt

to do more than they did to assist honest traders against fraudulent debtors and dishonest so-called creditors. But our experience was, that the objecting creditor got every discouragement in his laudable endeavour, and even in cases where he was successful in his opposition, and bankruptcy ensued, so little benefit ultimately accrued in the majority of cases on account of costs incurred, that the argument was used that his opposition was due to personal spite and a desire to oppress. What made matters worse was that the registrar frequently allowed a fresh first meeting when the debtor and his gang would use every care to avoid the pitfalls they had at first fallen into, and no doubt counted on tiring out the opposing creditor. So gross had the scandal become, that Parliament declared by section 170 of the Act of 1883, that after the passing of the Act, no composition or liquidation by arrangement under the Act of 1869, was to be allowed without the sanction of the registrar or the court: *i.e.*, that the registrar or the court should use a judicial discretion in consulting whether it should be allowed, and not merely see whether the requirements of the Act of 1869 had been complied with. These liquidations and compositions will soon be things of the past. Liquidations will exist no more. Compositions we shall have, but far different from those that became notorious under the late Act.

Let us consider what is the position of a debtor under the Act of 1883. In the first place he may avoid the Act altogether, *i.e.*, without coming into court, or being brought into court through the medium of a petition, he may enter into an arrangement with his creditors or pay them a composition which they will accept in payment of the debts due to them. Now, I am aware that there is a general impression abroad, that one result of the new law will be to increase the number of arrangements or compositions outside the Act, between debtors and creditors. I have no doubt that there will be an increase in such arrangements or compositions, but so many difficulties are likely to beset them, and so many dangers have to be guarded against, that I do not think they will be so numerous as many people expect. You will remember for instance, that par. (*h*) of section 4, now enacts that a debtor commits an act of bankruptcy "if he gives notice to any of his creditors that he has supended, or is about to suspend payment of his debts." A reasonable meaning must be put upon that paragraph, and therefore where a person sends a circular letter to his creditors asking their attendance at a meeting, he will have concocted a very ingenious letter indeed, if it does not convey to them that he is about to suspend payment of his debts, and so give them notice of an Act of Bankruptcy. But whether it does or not, of course the proceedings at the meeting will amount to an Act of Bankruptcy, and therefore two or three obstinate creditors will always be able to present within three months a bankruptcy petition against the debtor, and so upset the management he may have entered into with the remainder. It may also turn out to be a very serious thing for a trustee or inspector to be appointed under the deed of arrangement, and who with notice of an Act of Bankruptcy pays to the creditors or some of them, moneys that come into his hands as such trustee or inspector. Another objection to these arrangements or compositions outside the Bankruptcy Act is this, that creditors will have no sufficient guarantee that the debtor has disclosed all his assets, or in other words they will not be able to have him examined on oath, nor will they have the report of the official receiver as to his conduct or the history of his failure.

There being at least these disadvantages connected with private arrangements or compositions, let us consider what advantages there are in filing a bankruptcy petition in the court where it is not desired to make the debtor a bankrupt.

In my opinion, section eighteen, which is applicable to a case of this kind is one of the most beneficial in the Act, both to the debtor and to the creditors. On the one hand the debtor whose failure was due to no fault or misconduct of his own, will be able to escape the stigma of bankruptcy, (a receiving order only being made against him, which does not divest him of his property, but merely protects it), whilst the creditors on the other hand, will, as a rule, be able to obtain larger dividends, as the inevitable expenses of administering the estate in bankruptcy will be avoided, as well as the loss which would occur if a forced sale of the bankrupt's property were to take place. Again, both the debtor and the creditors, if there is the proper majority, can bind dissenting creditors, and when we consider that the composition or scheme of arrangement must be resolved upon by a special resolution of the creditors, and confirmed by a resolution passed by a majority in number representing three-fourths in value of all the creditors who have proved, I do not think there is any great hardship on the dissentients. There is another great advantage which these compositions or schemes possess which renders them immeasureably superior to the compositions under section 126 by the Act of 1869. Not only must the composition or scheme be passed by the proper majorities at two meetings of the creditors, but every precaution is taken to prevent the creditors from voting in the dark, and to ensure that a person who ought to stand in the dock of the Old Bailey shall not be "whitewashed" by the Bankruptcy Court. In the first place, the second meeting of the creditors is not to be held until the public examination of the debtor is concluded. This must take place in open court; any creditor who has tendered a proof, or his representative may question the debtor concerning his affairs and the causes of his failure; the official receiver is bound to take part in the public examination, the court may put such questions to the debtor as it thinks fit, and a record of the examination taken on oath, will be kept on the file for the inspection of the creditors, and may, when necessary, be used against the debtors. In the second place, the notice convening the creditors for the confirmatory meeting must be accompanied by a report of the official receiver on the proposed composition or scheme of arrangement. In the third place, the composition or scheme of arrangement must be approved by the court. Now contrast these three points with the proceedings under the Act of 1869. In composition proceedings under that Act there was no public examination; the only opportunity a creditor had to examine a debtor was at the first or second meeting, generally held at the offices of the debtor's solicitor and presided over by a friendly chairman. There under many difficulties and with many interruptions a creditor might conduct such examination as he could at his own expense, bringing a shorthand writer if he chose. Such an examination was very inefficient, and was also objectionable, in this respect, that it threw upon the creditors a duty which ought to have been performed by some public official. Again the report of the official receiver confers a great boon on creditors; many persons, who, when a failure takes place, do not think it worth while to lose their valuable time by attending meetings of creditors. With regard to the third point, I have before pointed out that the court had nothing to do with the approval of a composition under the Act of 1869; it will now have abundant means at its disposal in order to arrive at a conclusion whether it should sanction or not a composition or scheme.

I have dwelt at some length on this subject of compositions or schemes, following close on a receiving order, because, I believe they will be in most cases preferred by the debtor and the creditors where the failure was due to misfortune, and no imputation of fraud is made against the debtor.

When a trustee is appointed under a composition or scheme, the sections of the Act relating to trustees in bankruptcy will also apply to him. These sections (*inter alia*) contain very stringent provisions as to the remuneration of trustees, as to the books and accounts to be kept by them, the payment of moneys into the Bank of England, the

audit of their accounts by the Board of Trade, their removal, release, voting powers, and the control which may be exercised over them by the creditors, the Board of Trade or the Court. Again, relating to proof of debts, property available for payment of debts, the effect of bankruptcy on antecedent transactions, and the realization and distribution of the property, are applicable so far as the nature of the case and the terms of the composition or scheme admit to the trustees, who may be appointed under it.

The court has power to enforce a composition or scheme, or, if for any reason it cannot be carried out, to annul it, and adjudicate the debtor a bankrupt, but the composition or scheme will not release the debtor from crown debts, or debts incurred by fraud, or fraudulent breach of trust, from which he would not be released by a discharge in bankruptcy, nor, again, will it release a co-debtor, co-contractor, or surety.

If the debtor has no composition or scheme to offer, or if the creditors do not accept it, or pass no resolution, or resolve on bankruptcy, or do not meet at all, in any of these cases, the debtor against whom a receiving order has been made shall be adjudicated bankrupt. Though the Act deprives the debtor of the right which he enjoyed under the Bankruptcy Act 1869, of presenting a petition for liquidation by arrangement or composition with creditors, yet he has ample opportunity of avoiding the stigma of bankruptcy, as the court in the first instance only makes a receiving order against him which may be followed either by a composition or scheme, or by an adjudication in bankruptcy. When the severity of the Act towards bankrupts is considered, it will be admitted that great hardship would have been caused in many cases if the court had not been empowered to take this preliminary step of making a receiving order. Bankruptcy deprives a person of his seat in the House of Lords or the House of Commons ; disqualifies him from acting as Justice of the Peace, mayor, alderman, councillor, guardian or overseer of the poor, member of a sanitary authority, school boar l, highway board, burial board or select vestry, until the bankruptcy is annulled or the bankrupt gets a discharge, with a certificate that the bankruptcy was caused by misfortune.

Now, let us see what may befall a debtor against whom an adjudication has been made. Out of Bankruptcy there are two doors, a composition or scheme of arrangement, and an order of discharge ; compositions or schemes after adjudication are not new, provision for them having been contained in the Act of 1869. Generally speaking, they are subject to the same rules and attended with the same consequences as those that are accepted before, or without, adjudication. With regard to the order of discharge, the Act of 1883 contains some very important improvements on that of 1869. Under the latter Act the close of the bankruptcy was quite a different theory from the discharge of the bankrupt ; the court might make an order closing the bankruptcy, when all the property of the bankrupt had been realized, or as much as could be without needlessly protracting the bankruptcy. As to the discharge of the bankrupt, he might apply for it after the close of the bankruptcy or before the close, if the creditors gave him leave to do so ; but the court would not grant the discharge except one of the following conditions had been fulfilled, viz. : that a dividend of 10s. in the £ had been paid, (or might have been paid but for the negligence or fraud of the trustee) or that the creditors had passed a special resolution that the bankruptcy or the failure to pay 10s. in the £ had arisen from circumstances for which the bankrupt could not be held responsible, and that they wished him to have his discharge. And the court might suspend or withhold the discharge in two cases. (1) if he had not given up all his property to his creditors ; (2) if a prosecution had been commenced against him as a fraudulent debtor under the Debtors Act, 1869. Further, with regard to the status of an undischarged bankrupt, no portion of a provable debt could be enforced against him for 3 years, during which period by paying up to 10s. in the £ he might obtain his discharge. When those 3 years expired the Act allowed a creditor to enforce against an undischarged bankrupt payment of any unpaid balance of a debt which he had proved, but unfortunately for him there was nothing to prevent the bankrupt from carrying on his business in the meantime, and the creditors' right to enforce payment of this balance could only be exercised with the sanction of the court, which would only be granted subject to the rights of any fresh creditors. The consequence of this very unsatisfactory state of the law was that it was a matter of perfect indifference to many bankrupts whether they obtained their discharge or not. During 1881 only 106 out of 5,207 bankrupts applied for their discharge, and even of those who were entitled to their discharge only one-third had applied for it. *Now* if an undischarged bankrupt obtains credit to the extent of £20 from any person, without informing him that he is an undischarged bankrupt, he may be convicted of a misdemeanour, and sentenced to 2 years' imprisonment. Whilst the Act renders it of the utmost importance for a man to obtain his discharge (at all events where he means to go into business again) it at the same time turns great obstacles in the way of his obtaining it. If, indeed, the bankrupt has committed the misdemeanour just mentioned, or any of those contained in the Debtors' Act 1869, the court is *bound* to refuse the discharge. Again the court may refuse or suspend the discharge, or only grant it subject to conditions on proof of any of the facts set forth in sec. 28, sub-sec. 3 of the Act.

Another section gives to the Court a similar discretion where the bankrupt has executed an ante-nuptial settlement on his wife or family with intent to defeat or delay his creditors, or which was unjustifiable, considering his position at the time it was made.

But there are still further terrors for the dishonest debtor. When the trustee or the Official Receiver reports that the debtor has been guilty of an offence under the Debtors' Act, or the Bankruptcy Act, the Court has all the powers of a stipendiary magistrate to take depositions, and commit the debtor for trial, and the public prosecutor will be bound to institute and carry on the prosecution.

Justice will thus overtake rapidly and surely the fraudulent debtor, and it will be no defence for him to say that he has got his discharge, or that the Court has approved a composition or scheme.

Let me now call your attention to one or two other points which are distinct novelties in our Bankruptcy Law. The poorer class of debtors (those whose indebtedness did not exceed £50) formerly could not get relieved from their liabilities except by payment in full, though the court might order that payment be made by instalments. It must be admitted that if a large debtor can get relief from his debts in a Court of Bankruptcy, it is unreasonable to deprive poor men of a similar privilege, and the section which enables the court to make an administration order on the application of a judgment debtor, whose indebtedness does not exceed £50, is one that no person can fairly object to. It will of course depend on the conduct, character, and means, of the debtor, whether the court will order his debts to be paid in full, in part, at once, or by instalments. You must remember, too, that the power of the court to commit under sec. 5. of the Debtors' Act is not taken away, and the court may, instead of making an administration order, send the debtor to prison if it is shewn that he has or has, had since the date of the judgment, the means of paying the judgment debt, and has not paid it. It has been said that the administration order section will rather injure those it was intended to benefit, as shopkeepers and others will refuse to give them credit. If the effect of the section will be to do away with credit to a large extent, and substitute for it ready money transactions, thereby encouraging habits of providence, so much the better, both for the working classes and their customers. But credit, we may be sure, will still be given, and if a small debtor

becomes insolvent it is much better for his creditors that he should be ordered to pay them a proportion of their debts than that one or two of them should receive payment in full by instalments, or that he should be sent to prison. In the meantime the debtor will still be able to go on earning his wages, and the judge, when determining the amount of the periodical instalments to be applied to the old debts will, no doubt, take care that enough is left to the debtor to buy, for ready money the necessaries of life. It is well provided too, that if he should, during the course of the administration, have property beyond the value of £10, execution may be levied on his goods, but the breaking up of his home—so often the step in the downward career of the poor man—will be avoided, and his furniture, clothing, and tools, to the value of £20, are protected from seizure.

Another novelty is the provision for the administration in bankruptcy of the estates of persons who die insolvent. The propriety of assigning to the bankruptcy branch of the court the administration of all insolvent estates, whether the debtor is alive or not, cannot, I think, be questioned. Besides, this provision of the Act will, no doubt, bring in yearly a considerable sum to the credit of the "Bankruptcy Estates Account," and so, perhaps, eventually help to induce the proper authorities to make some modification in the existing scale of fees and percentages, which are by many persons considered too high.

Another praiseworthy attempt at reform is the provision as to small bankruptcies, where the property does not exceed £300. Under the late Act, the creditors in such cases got next to nothing, the assets being swallowed up in expenses and costs. Now, however, the official receiver is to be the trustee (unless the creditors by special resolution appoint a trustee of their own), there is to be no Committee of Inspection, no advertisement in local papers, no jury, no appeal without leave, no necessity to apply to the court for leave to disclaim leaseholds which the bankrupt has not assigned, sublet, or charged; there is to be only one meeting of creditors (except where a composition or scheme is to be confirmed), and the estate is to be realized with all reasonable dispatch, and if possible, distributed in a single dividend. Gazette notices cost 3s. 4d. instead of 10s., and lastly, a lower scale of solicitor's cost is to be allowed, viz.: three-fifths of the ordinary scale. It is, however, I believe, in respect of these small bankruptcies that a hitch has occurred in the working of the Act. No doubt to prevent the abuse of the process of the Bankruptcy Court, the petitioning creditor ought to be obliged to make some deposit as a guarantee of good faith, but I think where the estate is likely to be small, he is too heavily taxed by having to pay £5, for stamp duty, and £5 and such further sum as the court may order, as a deposit to cover the fees and expenses of the official receiver—all this, be it remembered, in addition to the sum which his own solicitor will naturally ask to be deposited with him for his expenses out of pocket, &c. No doubt one of the rules provides for the payment to the petitioning creditor of his taxed cost, but the duty on the assets realized, the expenses of realizing them, the fees payable for business done by any officer of the court, and the remuneration of the special manager (if any), must be provided for. Under the Act of 1869, solicitors acting for petitioning creditors, did not frighten them by making too large a demand on them in the first instance to secure their costs, because under that Act they were paid out of the estate on a most liberal scale for doing a great deal of routine work which is now done by the official receiver.

When the present Act comes to be thoroughly understood I believe the real facts will be these: The fees payable are, on the whole, much the same as under the Act of 1879, but for them, a great deal of work is now done by the official receiver which was formerly done by solicitors and charged on the estate. The new system will be beneficial to the creditors by relieving the estate from the solicitor's bills of costs for such work, by the thorough investigation which the official receiver will make into the debtor's affairs, and by the effective control which will be exercised over the trustee and others, who are concerned in the administration of the estate.

Under the new Act the distinctions between traders and non-traders, has been almost obliterated.

Seizure and sale of a debtor's goods under an execution for any amount, is now an act of bankruptcy. So is a notice that a debtor has suspended, or is about to suspend, payment. So also, is a fraudulent preference, and the protection given by the Act of 1869 to the creditor who did not know that he was fraudulently preferred, is now taken away.

Again, you can no longer compel a man to commit an act of bankruptcy by serving on him a debtor's summons which he will fail to comply with, but instead thereof, you must first obtain judgment against him and then serve on him a bankruptcy notice. Now I am not sure that this change is to be considered an entirely beneficial one. No doubt the procedure by debtor's summonses was very often expensive, especially where the registrar stayed the proceedings until the debtors liability was determined in an action, but the debtor's summons process gave the creditors this great advantage, that the court was enabled by the Absconding Debtor's Act, 1870, to order the arrest of a debtor, if after a debtor's summons had been granted, and before a petition in bankruptcy could be presented against him, it appeared he was about to go abroad with a view of avoiding payment of the debt, service of a petition of bankruptcy or otherwise avoiding or delaying proceedings in bankruptcy, That Act has now been repealed, and section 25 of the Bankruptcy Act, 1883, does not provide for the arrest of a debtor who is about to abscond, until a bankruptcy notice has been issued. That of course must be preceded by a judgment, but before the creditor has been able to obtain judgment the debtor may have left the country and carried the bulk of his assets with him.

Another questionable change is the abridgement of the trustee's title, which now. only relates back to the earliest act of bankruptcy committed within three months of the presentation of the petition.

A great improvement has however taken place in the law with respect to execution creditors. By the late Act, if the sheriff seized under a writ of *fi fa* the debtor's goods on behalf of an exection creditor, before the debtor had committed an act of bankruptcy, the execution creditor became a secured creditor, and was entitled to be paid out of the proceeds of the execution, unless the debtor was a trader and the execution was for a sum exceeding £50, in which case the execution creditor might be defeated, if the sheriff within fourteen days received notice of the presentation of a petition against the debtor. But the execution creditor might avoid all risk by procuring the goods to be seized under a writ of *elegit* and not a *fi fa*. All this is now changed. In the first place, unless the execution creditor has followed up the seizure by a sale before the date of the receiving order, and before notice of the presentation of a bankruptcy petition, or of the commission of an available act of bankruptcy by the debtor, he will not be entitled to retain the benefit of the execution. Secondly, an execution creditor is no longer entitled to have goods seized under a writ of *elegit*. Thirdly, if the goods of a debtor are sold under an execution in respect of a judgment, exceeding £20, the sheriff must hold the proceeds in his hand for fourteen days, to see if any bankruptcy petition is presented by or against the debtor, and to pay them to the trustee if any shall be appointed; and Lastly, when the sheriff sells goods under an execution for a sum exceeding £20, the sale must in all cases be by public auction, except by special leave of the court.

Another attempt to remedy a great abuse will be found in the rules relating to proxies, which will go far to protect the

creditors from those who would only vote against their interest. There are under the Act two kinds of proxies, general and special. A creditor can give a general proxy to the official receiver (who of course will vote in the interest of all the creditors), or he may give a general proxy to his manager or clerk or some person in his regular employment, and the proxy must state in what relation to him such person stands. But a creditor cannot give a general proxy to a stranger, and though he may give him a special proxy, yet he can only do so where it is for a special meeting, to vote for or against a specific resolution or for or against a specified person as trustee or committee man.

A person may vote for himself as trustee, if he has a special proxy for that purpose, but the court has power to deprive him of his remuneration, if any solicitation has been used by or on his behalf in obtaining proxies, or in procuring the trusteeship, and further, no holder of a general proxy can vote in favour of any resolution which would place himself, his partner, or employer, in a position to receive any remuneration out of the estate. Lastly, a proxy cannot be used unless it is deposited with the Official Receiver or trustee, not later than the day before the meeting at which it is to be used.

With regard to the position of a secured creditor, the Act contains important changes to his advantage. Under the old law, a secured creditor before being allowed to prove or vote, was obliged if he had not realised his security, to put a value on it. If he undervalued it, the trustee might at any time before realization redeem it at the assessed value, and if the creditor realized it, the trustee might claim any surplus received beyond the assessed value, he could not increase his proof. Under the present rules, the trustee must make up his mind within six months after a notice from the creditor, whether he will redeem the security or not. Where a creditor has valued his security he may amend his valuation on showing that it was made in a mistaken estimate, or that since the valuation, the security has increased or dimished in value ; and where it is realized, the net amount received is to be treated as an amended valuation, and to be substituted for the valuation previously made by the creditor.

I have now touched lightly on the more important provisions of the new Act. It certainly is an honest attempt to remove some of the blots that existed under the Act of 1869, and that it has already to a certain extent been successful, is shown by the fact that at present the weekly failures are nearly 200 less than they were this time last year. It will also be worked with this advantage, that your Institute will be able to supply any number of gentlemen of high education and character, fit for the office of trustee or official receiver, and that the ignorant and dishonest imposters who dubbed themselves "accountants," and brought discredit on your profession, will soon be heard of no more.

THE CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY OF LONDON.

EXECUTORSHIP ACCOUNTS.

By Frederick Whinney, Esq., Junior, Barrister-at-Law.

On the 25th instant, an interesting and instructive lecture on this subject was delivered by Frederick Whinney, Esq., Jun., Barrister-at-Law.

Mr. T. A. Welton, F.C.A., (Chairman), introduced the lecturer.

Mr. Whinney referring to the difficulties which students experienced in studying the various technical and uninteresting books on executorship Accounts, remarked that he had prepared his lecture for the use of those gentlemen who were entering for examination. He then proceeded with his lecture as follows :—

In the discharge of your professional duties as accountants, you may be called upon in various ways to deal with the accounts of Executors in connection with an action to administer the estate of the deceased.

Under order 55, rule 19, of the present rules of court, accountants may now be called in by the judge to assist in taking the accounts of an estate, and to give their certificate as to them upon which certificate the judge may act. In order to give a proper certificate, an accountant would require to know very thoroughly the principles upon which such accounts are taken by the Court, and a knowledge of these principles would also be found very useful, either in preparing the draft accounts to be taken in by the parties, or in advising other parties upon the accounts so taken in. It is not, therefore, surprising, if, in qualifying for your profession you should be required to know something both of the practice of taking such accounts, also of the principles upon which they ought to be framed. So far as regards the practice of taking accounts in the Chancery Division of the High Court, no great difficulty is presented to the student or the practitioner, as it is a matter of every-day occurrence, and carried out according to certain forms, which, having been in use for generations, are exceedingly simple in their character, and are thoroughly well-known and understood, and in which, in some cases, are prescribed by the rules of Court themselves. The difficulties arise when, as frequently happens, in the complexity of men's affairs, particular items rather out of the ordinary course have to be dealt with upon questions of principle, as to which it will be found that the law on the subject is rather an accumulation of decisions upon particulars, from which general principles can only be extracted with a considerable amount of labour. I have, however, endeavoured to extract some such general principles from them to which your attention will be directed later in the lecture.

Dealing in the first place with the practice of rendering accounts to the Court, it is laid down by the rules that executors must furnish them in the following shapes.

A.—A schedule of all the personal estate left by the deceased.

B.—An account of receipts and disbursements in reference thereto.

C.—A schedule of the personal estate left outstanding at the date of the accounts.

D.—A schedule of the real estate left by the testator giving short particulars thereof.

E.—A schedule of the incumbrances (if any) on the real estate.

F.—An account of receipts and disbursements in reference to such real estate.

all which schedules and accounts must be verified by affidavit.

These accounts will, if the necessary distinction is made in them between amounts received on account of capital and on account of income, respectively give all the information necessary for the purpose of winding-up the estate. For instance, supposing a testator to leave a sum of bank stock which the executor afterwards sells, and the proceeds of which he invests in purchasing a sum of three per cent. consols, the bank stock will appear in schedule A, the proceeds of the sale on the debit side of the cash account B. The cost of the consols on the credit side, and the amount of the consols, will form an item in the schedule C of assets outstanding. The attention of an accountant must, of course, be principally directed to the accounts containing the receipts and disbursements, but he will find it necessary to refer to the schedules A and C for the purpose of checking such accounts in reference to the personal estate, and to the schedules D and E in reference to real estate.

The form of cash account B is prescribed by the new rules of Court, and will be found to be form 11 of appendix L to such rules. The items on each side of the account are to be chronologically arranged and numbered, the items of debit to form a distinct series to the items of credit.

When the account has been brought in, any party who is dissatisfied with it, may enter into evidence, to shew that the accounting party has received more than he has admitted by his account, and in the same way the items of disbursement have to be proved by the accounting party, those over 40s. by the production of the vouchers, and those under that amount by the oath of the accounting party giving full particulars. No item for general expenses will, in any event, be allowed. The vouching of such items is, however, only evidence that those amounts have been actually paid, and any party may apply for the disallowance of any of such items upon the ground that they were not proper disbursements.

In taking an account, no balance is in general struck until all the receipts and payments have been gone through, and no rest can be made unless directed by the decree, although simple interest may be charged in a proper case without any such directions in the decree.

Where an account is directed to be taken and with rests, as against an accounting party, a balance must be struck at each rest which the decree requires to be made, by deducting the amounts of the payments from the amount of receipts up to that time. Interest at the rate ordered is then calculated on the balances and carried into the next account so as to charge the accounting party with compound interest.

As far as I can gather from a consideration of the cases, interest would not be allowed at any rest upon a balance in favour of the accounting party, for, except by the direct terms of the decree, the ordinary form of which only directs the account to be taken as against the accounting party with rests, interest can only be allowed upon the final balance ascertained in taking the whole account, because it is only then that it appears that the executors have not a balance in their hands.

It will be seen, therefore, from this short consideration of the mode of taking accounts, that it is of the utmost importance to know upon what principles an executor will be charged with, or allowed any particular items in taking the accounts, and whether in any case he will be charged or allowed interest, and if so at what rate and upon what terms, and whilst in ordinary cases it will of course be easy to distinguish between receipts in respect of capital and of income, it may become necessary sometimes to make distinctions between capital and income in respect of amounts which do not obviously belong to either, and therefore it is most important to know how apportionments are made, and also what payments to tenants for life an executor will be allowed as being property made in respect of income.

In the succeeding remarks it will be seen that I speak of executors and trustees as if they were interchangeable terms, but that is not really so; executors have well defined duties to perform in the administration of an estate, and are liable for the performance of those duties, but so far as they hold funds on behalf of other persons, they are trustees and liable to the ordinary rules governing trustees in such cases.

Let us, therefore, consider in the first place, what are the executors' duties in regard to collecting and getting in the assets of the testator, and with what amounts he will be charged in respect thereof.

The general rule is, that an executor will firstly be charged with all assets that belonged to the testator at the time of his death, and that have come to his—the executor's—hands, or as it is otherwise put "all those goods and chattels, actions, and commodities, which were of the deceased in right of action and possession as his own, and so continued to the time of his death, and which after his death the executor or administrator doth get into his hands as duly belonging to him in the right of his executorship or administratorship, shall be said to be assets in the hands of the executor or administrator to make him chargeable to a creditor or legatee." This, however, though it was formerly the strict rule of law, does not express quite accurately an executor's liability in an administration action, for he will not be charged with the assets themselves existing at the death of the testator, but only with the amount which they ought to have produced for the estate, at the date at which it is his duty to account for them, viz., at the lapse of a year from the death of the testator. All the assets themselves must of course find a place in the schedule A. in order that the Court may be able to ascertain with what amounts he ought to be charged according to the above principle, and the cash account B and the schedule C ought, between them, to account for the proceeds of all the assets in schedule A, either as having been properly paid away by the executor in the course of administration, or as existing for the benefit of the estate in a proper and authorised permanent state of investment.

Besides the assets, however, which belonged to the testator at the time of his death, the executor will also be charged in his accounts, with all property which comes to his hands by virtue of his executorship, even although it never in fact belonged to the testator, such, for instance, as moneys which became due to the testator or his executors after the date of his death, either upon a contract, or by way of damages, chattels accruing to the executor by way of remainder after the life interest of the testator, or of any other person who dies after him, and all natural increase or profits accruing on the property, or made by the executor by the use of such property, either in carrying on the testator's trade or otherwise, even although carried on in pursuance of a provision in the will or in the testator's articles of partnership, and even although none of the testator's assets be employed in such trade, or out of his office, or through any consideration or influence derived from it as; *e.g.*, the renewal of a lease of the testator for the executor, will not be allowed to make any profit for himself, but must account for it all, for the benefit of the estate; therefore, if he compounds debts or mortgages, or buys them for less than the nominal amount, it is for the general benefit of the estate, or if he purchase either directly or indirectly any part of the estate, it cannot be allowed, and he must account for every advantage of any sort or kind that accrued to him out of it. An executor will be charged with all such assets, no matter in what part of the world they may be, if only they have come to his hands.

It is important to remember that the phrase "come to his hands" has a technical meaning, and does not only include those of which he in fact possesses himself, but that assets will be deemed to have come to the hands of the executor, and therefore charged against him, so far as they are actually received by him or by anyone on his behalf, or might but for the neglect or default of himself or his agent, have been received, for all the assets in England vest in him upon probate by virtue of his office, *i.e.*, he thereby becomes in the eye of the law, the absolute owner of them as much as the testator himself, and therefore entitled to recover them by all lawful means, subject to this difference, that as he becomes the owner subject to the rights of others for whom he is trustee, he is not at liberty to waive his rights to them as the testator might have done; but Courts of Equity having taken a lenient view of his duties have held, that for the purposes of his accountability towards the various persons interested, he stands only in the condition of a gratuitous bailee and is therefore not to be charged without some personal default, but this doctrine only applies to those assets which are in fact in his hands or in those of his agents, and as will be afterwards seen, does not apply so as to excuse negligence in taking steps for the preservation and

collection of assets actually outstanding.

The assets in all other parts of the world will also vest in him or his representative, upon complying with the necessary formalities, to constitute himself the legal personal representative of the testator in the countries in which they are situated, and as by the comity of nations an executor properly constituted at the domicile of the testator is allowed to qualify himself, as of course in every other county he will be held liable for the whole of such assets, or at any rate for such part of them as by the law of that country, he will be enabled to get by virtue of his office and to bring away with him.

An executor when once the assets have technically come to his hands, is entitled in proceeding to collect and get them in, to deal with them in the same way as an ordinary prudent man of business would deal with them, and he may therefore, where it is necessary or where the ordinary usage and custom of mankind in such matters allows it, leave such assets in the hands of others, as for instance, by opening a banking account, or leaving them with or transferring them to an agent for any proper purpose, or by the employment of such agents as auctioneers, stockbrokers, &c., in the selling in and realization of the estate as would be employed by any ordinary man of business, and in any such cases he will not be held responsible for the default of his agents, thus, *e.g.*, he would not be held liable for loss sustained through the failure of a banker with whom he had deposited moneys belonging to the estate, unless they were moneys which he ought to have otherwise dealt with, or unless he kept a larger amount there or kept it for a longer time than was reasonable or necessary.

The general doctrine as to the extent of the liability of an executor for negligence in his dealings, is very ably laid down in the case of Clough and Bond by Lord Cottenham, which is cited at page 1,826 of Williams.

Having thus considered what are an executor's duties, in respect of collecting and getting in such assets, let us now turn our attention to his duties, as to the mode of dealing with such assets when they have once actually come into his hands.

Generally, it is the duty of an executor to deal with the estate of the testator, when once ascertained in a proper course of administration according to the directions of the will, and if and so far as the will is silent, then according to rules of law, first in the payment of the testator's funeral and testamentary expenses, and his debts, then amongst the beneficiaries designated by his will, or by law, and if in the course of such dealing any loss occurs to the estate through his management or mismanagement or misconduct, he is said in law to have been guilty of a *devastavit* or a wasting of the assets for which he will be liable. He is, of course, liable for direct acts of abuse, such as the application of the assets for his own purposes, or collusively selling off any of the testator's assets at an undervalue, but he will also be liable for acts of maladministration, even although done *bonâ fide*, if they be contrary to the express duties of his office. He is thus liable if he misapplies the assets in undue expenses for the funeral, in the payment of debts out of their legal order, or by the assent to or payment of a legacy when there are not sufficient assets for the creditors, even although such payments have been made in *bonâ fide* ignorance of the real state of affairs, unless the executor has availed himself of the provisions of Lord St. Leonard's Act, 22 and 23 Vict., c. 35, and has distributed the estate after due notice. In the first of such cases, he would generally be charged by means of a disallowance of such access in his accounts, and the consideration of this particular therefore falls more strictly within the question of an executor's allowances, which will be considered presently. In the last two, his liability would be in general established by an action at the suit of the particular creditor prejudiced, for having made payments of debts or legacies which ought to be postponed to his debt, he would not be allowed to dispute the existence of sufficient funds for the payment of his debt, but in taking the accounts in an administration action he would also be charged with the amount as assets misapplied, although the actual payments themselves would be payments proper to be allowed him as against the estate, and might in fact be allowed him in case of any further assets turning up.

Very large powers have recently been conferred by the Conveyancing Act, 1881, upon executors compounding, realizing or otherwise dealing with debts due to the testator's estate, and no executor can now be made liable for such dealing, provided it be done in good faith, but it must be remembered that an executor's dealings must all be for the benefit of the trust estate, and accordingly it is certain the Courts would hold that there was an absence of good faith, whenever any transaction was obviously not beneficial.

Those wide powers do not, however, authorise an executor to compromise his own debts to the estate, and it is doubtful whether they would render valid a compromise by executors, with one of their numbers, where several have been appointed, but certainly not unless the compromise is clearly beneficial.

An executor is also liable if any loss be sustained through his not using due diligence in getting the estate, whether by depreciation of the assets, failure of debtors, or otherwise, or by his not exonerating it from liabilities that he could get rid of, if for instance, the testator was possessed of leasehold property, the rents payable for which were greater than the yearly value, and of which the testator was not the original lessee, so that he was not bound absolutely by the covenants, but only so long as he was possessed of the lease, the executor would be charged with the loss to the estate caused by his not assigning such lease to a pauper. He is also liable for any loss sustained by the estate, through his not paying off when he had funds in hand, debts which bore interest or were by his delay in commencing an action against a debtor to the estate, he had enabled such debtor to plead the Statute of Limitations. Thus, in the actual realising and collecting of the estate, an executor will be the more easily charged with negligence than in respect to assets actually in his hands or under his control, for as to the former he is bound to use every diligence and to take all proper steps, whilst as to the latter he is only liable for his own personal default, and there is a good reason for the distinction, for a prudent man of business would not give such watchful attention to property in his own possession as he would to the getting in of his property in the hands of others. Thus, if goods have been stolen from his possession, or from the possession of a third party to whom they have properly been delivered by an executor, or are lost, or damaged by accidental fire or other casualty, an executor would not be charged without wilful default and that only if the accounts are specially ordered to be taken against him on that footing.

In addition to its being the duty of an executor to take all necessary steps to get the property of the testator under his control, it is also his duty to put such property, when once recovered, in a proper and safe state of investment, and if placed in an authorized investment, he will not be liable for any loss if he took reasonable precautions to see that a particular security was a sufficient one ; in connection with this it has lately been laid down that the rule that a trustee will not be allowed to lend more than two-thirds of the value of the property upon a mortgage, is not an absolute one. As to what is such a proper state of investment, the executor must be guided either by the express provisions of the will, or if the will is silent, then, by the rules of the Court of Chancery, which lay down the investments that will be permitted to executors, and all the property of the testator, which is not in an authorized investment, at the date of his death must be converted by the executor with all reasonable diligence, and invested in one of the authorized securities, and he will be charged with any loss arising from an invest-

ment remaining in any security not authorized by the will, or by the rules of the Court of Chancery for the time being. Where trustees are bound by the terms of the court, or by the general rule of the court, to invest the moneys in the funds, then the *cēst qu tr* in their election, may have the quantity of consols, which would have been produced at the date at which the moneys ought to have been invested, *i.e.*, in the case of executors generally at a year from the death or to have the money and interest at the rate ordered by the court. As, however at the present day the rules of court in all cases allow of investment of trust funds in other than government securities, unless otherwise provided by the will, this option will now, probably only arise when the trustees are restricted by the will, as the *cest qu tr* had formerly no such right. Where the trustees had an option as to the securities in which they would invest, the court, does not, however, require executors to proceed to a forced sale of the property, and they have accordingly fixed the period of a year from the death of the testator, as the date at which the testator's property ought to be realized, and accordingly executors will be charged in their accounts to the value of such property as they had failed to convert, calculated at the end of such year, together with interest at the rate of 4 per cent. at the least from such time, but they are not in any way responsible for the depreciation of the assets within that year, even although they may have been called upon by the beneficiaries to convert them earlier, and if from the fact that a particular security of a variable or speculative nature, was not able to be favourably realized at the end of such year, the executor has, in the exercise of a *bonâ fide* discretion, postponed the realization for a reasonable time, he will not be charged for any loss occasioned to the estate thereby even although it might have been realized much more favourably before the lapse of the year. It is also the custom in many wills now, to give executors a discretion as to postponing the period of conversion, and in such case the executor would not be held liable to any loss to the estate, if he had exercised such discretion *bonâ fide*. This duty of conversion more particularly applies when perishable or terminable securities are bequeathed, but not specifically to a person for life, and then to other persons after his death for in that case the persons who are to enjoy the property after the death of the tenant for life are entitled to have it put into such a condition as that all parties may enjoy in an equal degree the benefits contemplated by the will. If, on the contrary, a gain has accrued through an increase in the value of the investments even although authorised or from any other reason an executor will be bound to account for it to the estate, and will not be allowed to set off against a loss arising from other cause ; the general principle being that when an executor deals with the property in any other manner than his trust requires, if there is a loss, he must make it good ; but if any gain it belongs to the estate.

An executor will also be charged with all loss to the estate through the dealings of any agent employed by him, whether such agent was not proper to be employed, or had been employed in an improper way, or had been entrusted with the assets for an unreasonable time as to all which cases, as I have before said, the Courts are guided by the reasonable usages of mankind in matters of business, with the exception that they will not allow the executor, however usual it may be, to deposit the trust funds at interest with an agent other than a banker instructed to seek for a permanent investment of them. When there are several executors, one executor is, as a general rule, only liable for the assets he himself receives, which principle is expressed as a legal maxim by saying that " the receipt of the executor is not the receipt of all," and he is therefore not responsible for the neglect or default of any of his co-executors in dealing with any assets that have not actually come into his own hands, unless he has been a party to such neglect or default, either by putting his co-executor in a position to commit it, or by standing by himself and knowingly allowing it to be done when he might have prevented it.

Where an executor is made liable for any loss he will in general be charged with interest from the date of the breach of trust or other improper dealing or neglect through which the loss occurred. He will also be charged with interest where, apart from cases of non-investment of trust funds permanently, he has neglected to lay out monies which he was bound to do for the benefit of the estate, as *e,g.*, by keeping balances in his own hands during the course of administration. There must, however, be a clear case of improper retention of balances to a considerable or substantial amount, and it must be clear that they are not with reasonable probability required for the purposes of the estate.

Within a year after the death the presumption is in favour of the executor who retains large balances, but such presumption may be rebutted, and the existence of outstanding accounts will not afford sufficient justification for retaining large balances, unless there is a reasonable probability that the money will be required immediately. If the executor honestly believes in his own title to the balances he will not be charged with interest even although he turned it to his own use, if the will, reasonably construed, justified him in such a belief.

In case of mere neglect in the absence of special reasons an executor will only be charged with 4 per cent., but it is the settled rule of the Court that if a trustee having trust money in his hands knowingly apply it to his own use he shall be charged with 5 per cent. interest.

If he employs the trust funds in trade the *cest qu tr* have their option of charging him with 5 per cent. interest with annual rents or with the actual profits made, but they must make their election for the whole period to take interest or profits.

Cest qu tr have the same right of election as to a proportionate share of the profits if the executor has mixed the trust funds with his own and employed the whole in trade, and even if he does not use the funds in trade, still, if being a trader, he puts it to his own account at the banker increasing his balance and obtaining greater credit, he will be charged with 5 per cent. simple interest, the reason being in all the above cases that the funds having been liable to an extra risk of loss by being employed in trade, the *cest qu tr* ought to be remunerated with a proportionately large amount of yearly income.

Again, if an executor has, in fact, made 5 per cent. interest or more with the trust funds he will be made to account for the whole as he may make no advantage out of his trust, or if for his negligence or misconduct he might have made more than 4 per cent., as *e.g.*, if he have improperly converted securities authorised by the trust and producing more interest, he will be charged either with interest at 5 per cent. or with the interest which but for his negligence or misconduct he would have made. The rules as to charging an executor with interest are very well summarized in a case of A. G. *v.* Alford by Lord Cranworth, where he said that he did not approve of the rule that for mere misconduct an executor should be charged with 5 per cent. interest, but that the Court must charge him only with the interest he has actually received or which the Court is justly entitled to say he ought to have received, or which it is so fairly to be presumed, that he did receive ; that he is stopped from saying that he did not receive it, but if he had improperly used it for his own purposes the Court would not enquire what was the result of his own speculation, but would infer that he did either make 5 per cent. or ought to be stopped from saying he did not.

This case appears to extend the rule as to charging 5 per cent. simple interest to all cases where the trustee makes use of the trust funds for his own purposes, whether being a trader or not.

As a general rule the Court only orders simple interest, but executors will be charged with compound interest upon sums for which they are made liable, when by the terms of the trust they ought to have made it as *e.g.*, where there was

a direction to accumulate during a minority, or if they had used the money in trade for their own benefit in this latter case as a penalty for their misconduct.

Compound interest will be ordered if by the terms of the trust they were bound to make it, even in cases where they are only charged with less than 5 per cent. interest.

Having thus now dealt with the principles regulating the debit side of the account, we may now proceed to consider the items on the other side. Generally an executor is entitled to be allowed all payments properly made by him for the purposes of the estate, but not expenses improperly incurred by him such as those of defending or bringing an action which he ought not to have done.

Payments proper to be allowed are such as those made for the funeral and testamentary expenses of the testator, payments made in respect of his debts and to beneficiaries under the will, and in addition to these executors are entitled to what are called just allowances, but it is always necessary to remember that it is for the executor to discharge himself of the assets come to his hands and to prove that he ought to have any payments allowed to him.

I have already said that an executor will not be allowed any moneys paid for funeral expenses, which were not suitable to the position in life of the testator nor can he be allowed, at least as against creditors and pecuniary legatees, expenses paid for mourning for the widow and family. As regards the testamentary expenses, he is of course entitled to be allowed all proper expenses in proving the will, and in paying probate, and also legacy duty where there are sufficient funds for the payment of the legacies, and all proper testamentary expenses. He will also be allowed all proper expenses incurred in the realization and administration of the estate, including the keeping up of the domestic establishment of the testator for a reasonable length of time, in order to enable him to consider what had best be done with it, but for this purpose he is by no means entitled to the full period of a year, and each case must be considered according to its own circumstances. An executor is however entitled to be indemnified to the fullest extent against all expenses properly incurred by him in the course of the realization and administration of the estate, and since he is entitled as I have before said to employ agents, such as Auctioneers, Solicitors, and others, where the ordinary usages of mankind would allow him he will be entitled to be allowed the costs and expenses of their employment, but only for such acts as he could not himself reasonably perform and as were strictly within the business usually performed by an agent of that kind. It is however a part of his duty to collect and get in the assets himself, and he will therefore only be allowed the expenses of employing persons to collect it, where according to the usages of mankind looking at all the facts of the case he could not be expected reasonably to do it himself, for instance, an executor has been allowed the expenses of a rent collector where property consisted of 30 or 40 small houses let at weekly tenants, but he would certainly not be allowed the expenses of a collector for getting in rents of a few houses where the rents where payable quarterly unless under exceptional circumstances. He will also only be allowed the expenses of employing a solicitor for the transaction of purely legal business such as he could not himself transact, and accordingly a solicitor being the sole executor can in no case, unless expressly allowed by the will, charge the usual costs for business transacted for the estate either contentious or not, and whether transacted by himself or his partner, as he is bound to transact the business, he may have an allowance made him by the Court for his trouble, and of course is entitled to all costs out of pocket; but where he is one of several executors he is not bound to transact the legal business, and if retained by the executor as their solicitor in non-contentious business, or in an action for the administration of the trust he can only be allowed his costs out of pocket, but he will be allowed his full costs for any other contentious business transacted for them as if he were a stranger to the estate; these rules depending apparently upon the principles that otherwise where there is no supervision by the Court it would be placing his interest at variance with his duties. In consequence of these rules it has been customary where a solicitor is appointed an executor to insert a special direction in the will that he is to be allowed his costs, charges, and expenses, as if a stranger to the estate. The same rules apply to any executor rendering any other services to the estate in the way of his own business, and accordingly an executor being an auctioneer could not be allowed any commission for acting in the sale of the testator's estate, although as far as I can discover, there is no rule compelling him to act in such capacity, or to prevent his being allowed the actual expenses of employing another auctioneer not being his own partner.

Again, as an ordinary rule, where an executor supplies goods in the way of his own trade for the purposes of the estate, he would only be allowed the cost price of the goods supplied, although in one case where an executor who had been in the habit of supplying the testator with goods in his lifetime, was directed to continue his trade, the Court directed that he should be allowed the proper market price of the day for goods supplied, and directed an enquiry for the purpose.

These rules depend upon the principle that an executor cannot be allowed to make any profit out of his trust, and hence he can in no case receive any renumeration for his personal exertions, however much he has benefitted the estate, and even although he has thereby sustained loss in his own affairs, unless renumeration is directed to be paid him by the will itself or he has bargained for a renumeration before accepting the office. Such bargains, however, are looked at by the Court with the greatest jealousy, and can with difficulty be upheld. An example of such allowance was furnished by a recent case where the will having contained a direction that a solicitor executor was to receive an allowance for all work performed by him, and not only for purely legal business, the taxing master was directed to assess a reasonable renumeration.

These rules are carried to such an extent that a surviving partner appointed executor is not entitled without express stipulation to an allowance for carrying on the trade after the testator's death.

An executor will be allowed the payment of all debts in respect of which an action could be maintained, and that whether they are barred by the Statute of Limitations or not, for he is not before a decree in an administration action bound to plead that statute, but he will not be allowed any payments made in respect of debts for which no action could be maintained, such for instance as a physician's fee He may also, under the very wide powers conferred by the Conveyancing Act, pay any such debts as he may properly pay upon any evidence that he may consider sufficient, and he has, of course, general power for making any arrangement with the creditors of the testator whereby they should be induced to accept less than the full amount of their debts, but any profit made by such an arrangement must be strictly accounted for by him for the benefit of the estate. In paying such debts he must, however, unless the assets should be more than sufficient for payment of all charges, be careful not to pay a debtor of inferior degree before one of a superior class for otherwise he will be charged with the amount, but as between debts of the same degree he is entitled before decree in an administration action to prefer any one creditor to another, and is also entitled out of legal (but not equitable) assets to retain his own debt in preference to all creditors of the same degree. An executor will also be allowed payments in respect of interest on such debts as carry interest, but not upon any other debts until after the decree is an administration action, from which date all debts proved under the decree carry interest at 4 per cent., or such other rate as they respectively carry, but creditors whose debts do not carry interest are only to be allowed their interest after

satisfying the cost of the action, the debts established, and the interests of such debts as by law carry interest.

Therefore, where an executor has advanced money out of his own pocket or borrowed it for the purpose of paying the debts of the testator which carry interest, or of satisfying some of the creditors who are importunate and threaten to bring an action he will be allowed interest at 4 per cent. or such other rate as he has been compelled to pay upon such sums, but such interest is only calculated from the line of a balance being struck on the account, for until then, it is not certain that the executor had not money in his hands.

After satisfying debts, if there be sufficient assets for the purpose, the executor will be allowed all payments made to the beneficiaries under the will. As regards pecuniary legacies, they are considered by law as due at the expiration of a year from the death of the testator unless ordered to be paid earlier, and accordingly the legatees are entitled to interest at 4 per cent. from the end of each year. Interests, at that rate, will, however, be allowed from the death of testator in cases where such legacies are charged on real estate, or given in satisfaction of debts due by testator, or given to children of testator, or to other persons to whom he has placed himself in *loco parentis*, or again, where they are given to infants not children of testator, but with a direction superadded that the infants were to have an allowance for maintenance out of the interest. This rule does not, however, apply to legacies given to testator's widow. From these dates, respectively, the legacies will carry interest, although payment is from the condition of the estate impracticable, and although the assets be unrealizable and unproductive.

The general rule as to interest is very well laid down in a case of Pearson *v.* P. (Williams, page 1432).

Annuities given by testator, without mentioning any time of payment, are considered as commencing from his death, and the first payment is due at the end of the year, but if not paid then, by reason of the estate not permitting it, or for any other valid reason as a general rule the Court has refused to give interest upon the arrears of an annuity.

Where a time for payment of a legacy is fixed by the Will, no interest will be allowed until after that date, even although the legacy is vested, unless the fund for payment of the legacy is directed by the Will to be set apart immediately after the death from the rest of the estate, when it will pass with all its accretions, or, unless the testator was the parent, or in *loco parentis* to the legatee, in which case the legatee is entitled to an allowance for maintenance out of the interest whether the legacy is absolutely vested in him or would pass away upon the happening of a contingency, or finally unless interest is given on the legacy in the meantime. In all these cases interest will be allowed at four per cent., and only at simple interest, unless there is a direction in the Will to accumulate. As regards specific legacies, they are held to be appropriated immediately on the death of the testator, subject only to the payment of debts, and pass with all their increase. As regards residuary bequests, the question of interest can not arrive unless they are given to some persons for life, when the general rule is, that the legatee is entitled from the death of testator, to the income of such parts of the residue as are then in a proper state of investment, and to interest at four per cent. upon the balance of the residue from the end of a year, or if it have by that time been invested, then to the actual income made.

So far we have dealt with an executor simply as accounting for assets in the lump, and, where the estate is wound up at the end of the year, no further questions can arise, so long only as he has kept distinct and duly accounted for the income upon so much of the trust funds as was in an authorised state of investment at the time of death, but after that date it becomes the duty of the executor to see that the fund is put into a proper condition, distinguishing between income and capital; and, although for the purpose of making his payments, the executor may make them out of any funds that come to his hands, questions arise, as between the several parties beneficially entitled in succession, and also between the different classes of beneficiaries where the estate is not sufficient for payment of all in full, and in consequence, it will be necessary to consider the rules by which an executor ought to be guided, in distinguishing between capital and income, and then to deal with the cases where the estate is not sufficient for all the purposes of the Will.

As a general rule, there is no difficulty in deciding what sums are to be treated as capital, and what as income, but sometimes a lump sum may have to be apportioned between the two and this has to be done according to the well known rules laid down by the Courts.

In the first place, it must be remembered, that income accrued due up to the date of the death of testator, forms part of the capital of the estate left by him, but where an amount representing income comes into the hands of the executor after the death, part of which only is in respect of a period before the death and part after, then if such income is in the nature of interest accruing due from day to day, it is apportionable, the part accruing due before the death, being capital, and that accruing since, income, and it does not in its nature accrue from day to day, it cannot be said to have been earned during any specific portion of the period of time, but can only be first said to have been earned when the accounts have been taken at the end of such period, and it has been ascertained that there is a balance, then it must be treated as income accruing due on the date at which it is ascertained, although made payable at a subsequent date, so that if it has been ascertained in the lifetime, it is capital, but if not, income.

Of this kind, are dividends paid by public companies, which are only ascertained when they are declared, irrespective of when they have been earned, or the profits of a partnership which are only separated from the general assets when the balance-sheet is prepared.

The same rule applies to payments made by way of bonus out of profits, but if the bonus or dividends have not been declared out of profits, *i.e.*, if they cannot be shown to have been declared out of the profits of any particular period, but generally out of accumulations, they will be considered capital, no matter at what time they accrue due, and this, of course, the more if the accumulations, although made out of profits originally, have been dealt with and applied as capital of the business, as *e.g.*, by making them in the extension of a colliery.

On the other hand, debts paid into a partnership in connection with its business dealings go to swell the profits of the year in which they are are paid, no matter at what time or over what period they have been contracted, and therefore where a large debt falling into a company was afterwards distributed by way of bonus to the shareholders, it was held to be income as between the tenants for life and remaindermen, just as amounts which fall into the testator's estate, not being obviously income of investments accrued since the death, may not be treated by the executor as being entirely capital, so he will not alway be allowed to pay away as income to the tenants for life all moneys accruing due after the death and paid to the executor as income upon the securities in which the estate is for the time being invested, and an executor will only be allowed in his accounts as against the remaindermen those payments which have been made upon the right footing as income, and will be charged with interest in favour of the tenant for life, on all amounts improperly invested by him when they ought to have been treated as income.

It was laid down in the case of Howe v. Earl of Dartmouth, that where a testator leaves a residuary request to persons in succession the executor is bound in the absence of indications, that the property was intended to be preserved in the state in which it was found, to convert all perishable or terminable securities comprised in such

residue, such as leasehold or terminable securities, and to invest the same in some authorised security, and he will be charged in his accounts, either with the market value of such securities at the end of the year from the death, or with the amount of consols which might have been purchased, and he will only be allowed as payments in respect of income 4 per cent. on such sum of money on the interest which such amount of consols would have produced.

This rule has been since extended to all cases where an executor leaves the trust funds in an improper state of investment, because in these cases the actual amount of capital moneys belonging to the estate never having been ascertained, the Court can only charge him on the above principles. Where however, an executor has properly converted the estate, and holds in his hands an ascertained amount of capital money, and subsequently invests it improperly, or makes away with it, he is only bound as regards the remaindermen to make good such amount of capital, and must be allowed in his accounts the whole of his payments to the tenants for life, in respect of such investment even though much exceeding 4 per cent. on the capital sum, or the interest on the amount of consols, which such capital sum would have purchased. It is according to this last rule that where a trustee has misapplied moneys, being ascertained amounts of trust funds, and a claim is made in respect of it for principal and arrears of interest; all moneys received from him must first go towards making up the capital sum misapplied, and if not sufficient for that purpose the tenant for life will only be entitled to the future interest on that sum with no allowance for past arrears. In the same way the tenant for life will be entitled to the whole income of the securities in which the trust estate is for the time being invested, where there is a discretion to postpone conversion reposed in the executors, and they have properly exercised it, but not where the postponement is merely for the general benefit of the estate, as *e.g.*, to prevent an unfavourable hasty realization unless there is also an indication that the property was necessarily to be retained in specie. In any case the executor would not be allowed to retain or set off against his liability any increase in the value of securities in which he had properly invested other parts of the estate.

In analogy to the above principles, it is laid down that whenever any sum has to be apportioned between capital and income, the amount of capital is to be taken to be the present value of that sum at the date at which the capital ought in the particular case to be ascertained, and according to the latest decision reckoned at 4 per cent. compound interest: thus, if it be a fund falling off into the general estate, the getting in of which has not been postponed by any fault of the executor, the amount of capital is the present value at the death of the testator, but where it was a sum belonging to pecuniary legatees then at a year from the death. On the same principle for the purpose of bringing about equality between the beneficiaries, payments made by executors in respect of debts and legacies, as to which it must be remembered, and they are entitled to make them out of any assets they please are to be taken as having been made out of so much *corpus* as with the interest on that sum for a year, will provide the necessary amount, and it was therefore held, where a lump sum was paid by way of compromise of a claim against a testator's estate many years after it arose, that as between tenant for life and remaindermen, the sum paid must be compared with the amount of the debt due with interest at 5 per cent. to the death and 4 per cent. afterwards, and that only the proportion attributable to the latter must be treated as income, and the rest as capital, and also where children have received advances in their lifetime, inasmuch, as they are entitled to interest on their legacies from the death, instead of the end of the year afterwards, they are charged with interest at 4 per cent. from the death.

It only remains now to deal shortly with the rules, that ought to be followed where the estate is not sufficient for the debts and legacies, for although it should never be forgotten that an executor may make all proper payments out of any assets that come to his hands, still he must not pay the several classes of persons interested except in their proper order.

I need not here treat of the costs of an administration action, for those will always be dealt with apart from the accounts. The first charge upon the estate, so far as we need deal with it, comprises the proper funeral and testamentary expenses of the testator, including costs of realization and preservation. After these have been paid, the great principle followed by the court of chancery is that, a man must be just before he is generous, and accordingly all debts of every kind, including what are called voluntary bonds, *i.e.* for which no valuable consideration has been given to the person bound must be paid before legacies and other gifts to beneficiares.

Amongst the debts themselves there is a certain order of payment which an executor must observe, and if he should pay a debt in any inferior class before one of a superior he will have no defence against an action by a creditor of a superior class, and will be charged in his accounts with a sum sufficient to pay all superior debts.

The order of such debts is as follows :—

Firstly.—Debts due to the Crown by record or specialty, such as upon bonds given to the Attorney General on behalf of her Majesty.

Secondly.—Debts to which particular statutes give priority, such as debts due by Overseers of the Poor to the Parish, regimental debts due by soldiers, and debts due by the officers of Friendly Societies to the Society.

Thirdly.—Jndgments duly registered and unregistered. Judgments if recovered against the executors themselves.

Fourthly.—Recognizances and Statutes such as those given by a person to insure his attendance as prosecutor or witness at a Criminal Court or as Bail for another.

Fifthly.—The ordinary debts owing by the deceased upon contracts whether specialty contracts *i.e.*, under seal or not. If the debts under seal be contracted for valuable consideration, including in this class all arrears of rent and unregistered judgments, which were recovered against the deceased in his lifetime and not against his executors.

Sixthly.—Voluntary bonds in the hands of those to whom they have been given, but if a voluntary bond has been assigned to another for value at any rate in the lifetime of the person bound, it will in the administration of assets stand on the same footing as a bond originally given for value.

This has always been the order in which the debts were paid out of what we called liquitable assets to which as I told you before an executor's right of retainer does also not apply, but as regards persons dying before the 1st January, 1870, creditors by what are called specialty contracts were entitled to be paid out of the legal assets in priority to debts not incurred under seal. I might, therefore, just give one word of explanation as to the distinction between legal and equitable assets, as you might possibly in some cases have to deal with estates of persons who died before 1870.

Legal assets are defined to be all those assets which an executor could recover by virtue of his office, and whether in Courts of Law or of Equity, although they be mere equitable interests like the equity of redemption upon a mortgage.

Equitable assets are of two kinds—

Firstly.—Those which are so by virtue of their own nature and character, such as the separate estate of a married woman, but these probably not so since the "Married Woman's Property Act, 1882," and property

over which the testator has what is called a general power of appointment which he has exercised, and

Secondly—Those which are so created by the act of the testator such as those portions of his real estate, which he has expressly charged with or devised subject to the payment of his debts.

If after payment of all the debts out of the general assets there be any surplus, but not one sufficient to satisfy the claims of all the beneficiaries they as amongst themselves are entitled to have the assets marshalled as it is called, *i.e.*, to have the whole burden of the debts thrown on those classes of beneficiaries who ought to be postponed to them, or looking at it from the other side, there is a certain order in which property given to beneficiaries may be taken by the executor for the purpose of paying debts, and this perhaps is the best way in which to treat it for our purposes.

First of all then, an executor ought to pay the debts out of such parts of the general personalty as is either not bequeathed at all or only by way of a residuary bequest. Secondly, if this should not be sufficient he may resort to such part of the real estate as has been expressly devised for the purpose of paying debts. In the third place, he may have recourse to such part of the real estate as has not been devised at all or as to which the devise has failed, and which has therefore descended to the testators-at-law. Fourthly, he may take such portion of the real estate as although being devised to that person subject specially to the payment of debts. In the fifth place only can he come upon pecuniary legacies and annuities. Sixthly, if all the above classes be not sufficient then such portion of the estate whether realty or personalty as has been specifically devised or bequeathed is liable to be taken. Seventhly, he may take the personalty over which the testator had a general power of appointment, which has been actually increased by deed or will. And in the last place the paraphernalia of the widow thus consists of such apparel and ornaments given to the wife by her husband as are suitable to her condition in life, and as are expressly given to be worn as ornaments of her person only and not given to her absolutely. These articles are as before mentioned liable to the husband's debts, and may be disposed of by him during his life by sale or gift but not by his will, and if not disposed of during his lifetime they become the wife's property absolutely. It must be remembered, however, that the testator may by express direction shewing at the same time an intention to exonerate the general personal estate from its primary liability, and thus in fact to make it almost a specific bequest, declare that the debts are to be paid out of any specific portions of his property, realty, or personalty, and in that case the persons to whom such property is specifically given must take it subject to the burden, and in the same way persons to whom real property devised which has been charged or mortgaged by the testator in his lifetime, take it subject to the burden of such charges, and cannot claim to have them paid by the executors as being debts of the testator unless so expressly directed in the will.

This is so provided by the express statutory authority, of what are known as Locke Kings Acts, but although they include leaseholds, the same rule does not otherwise apply to specific legacies, nor to the paraphernalia of the wife, which, if pledged by the testator, or otherwise charged in his lifetime, must be redeemed by the executor out of the general estate, for the benefit of the legatee or widow. When for any of the above purposes the executors have to deal with the real estate, or receive the rents and profits of any part of it, they must account for them in the same way as I have described, with reference to the personal assets in accounts drawn up in similar form, as stated at the commencement of my lecture, but it must be remembered that executors as such, have nothing to do with the real estate, except so far as it may be needed for the payment of debts, and that the real estate does not vest in them, but that it vests directly by force of the devise, or operation of law in the persons to whom it is devised, or on failure of them in the testators heir-at-law, and that they are not, therefore, bound to get in or protect the real estates, unless it be needed for debts.

I have, in this lecture, only spoken of executors strictly so-called, but the duties of an administrator are practically the same, although his rights are not nearly so extensive *e.g*, the very wide powers of compromise conferred by the Conveyancing Act, do not apply to him, and the right of retainer does not, in ordinary cases, belong to an ordinary administrator, who is appointed as being a creditor of the testator, and he has not such extensive rights of acting before the letters of administration are actually granted as an executor has before probate. Of course his duties must be understood with this difference, that except in the case of administration *cum testament annexo*, the beneficiaries to whom he has to account, are the next of kin of the testator according to the statute.

A cordial vote of thanks to the lecturer terminated the proceedings.

MANCHESTER ACCOUNTANTS' STUDENTS' SOCIETY.

GOODWILL.

By William Harris.

The following paper on the above subject was read by Mr. William Harris, at the 16th Ordinary Meeting of the Manchester Accountants' Students' Society, held in the Old Town Hall, Manchester, on Monday, the 4th February, 1884 at 6.30 p.m., with Adam Murray, Esq., F.C.A., in the chair.

Mr. Harris, on rising, said :—

I purpose, with your permission, to read a paper on "The Law and Practice in relation to Goodwill."

I will endeavour to illustrate the principles of law by references to some of the leading cases on the subject, and to help to a better understanding of the judgments given in those cases, I will recount, as far as needful, the facts of a few of them. It will also be my endeavour to give some instances where the court has settled the respective shares of the parties in the amounts obtained by a sale of the goodwill, and where possible, give the basis upon which such value was estimated, and the cases dealt with by the court. I may supplement by some other instances where the value has been settled in the ordinary course of practice. Throughout I shall keep in view the fact that these notes are addressed by a student to fellow students, and I will therefore, wherever necessary, indicate the source of my authorities, so that where this paper may be considered suggestive rather than exhaustive of the points dealt with, you will be able to readily follow the matter up.

I may, perhaps, be allowed to state in a few words, why I have chosen Goodwill as a subject.

The explanation is that at a former meeting I rather incautiously drifted into remarks and opinions, the soundness of which I was far from feeling assured of, and I believe I inserted a saving clause to that effect, in what I said at the time. Since then I have looked the matter up a little, and it is the notes which I made in the course of that enquiry—fragmentary and incomplete as they are, which form the basis of what I now proceed to deliver.

Goodwill may be defined as being the money value over and above the value of the actual assets of a concern (such as book debts, stock-in-trade, machinery &c.) which can be realised in cases of death, dissolution, retirement, or liquidation ; and the circumstances of any given number of cases vary so much, that I shall be content if this definition is generally born out by the particular cases I have been able to to refer to. In the important case of *Churton* v. *Douglas* Vice-Chancellor Wood, in giving judgment in that case, said:

"Goodwill must mean every positive advantage as contrasted with the negative advantage of the late partner not carrying on the business) that has been acquired by the old firm in carrying on its business, whether connected with the premises in which the business was previously carried on, or with the name of the late firm, or with any other matter carrying with it the benefit of the business."

The name of a firm is a very important part of the goodwill of the business, and when you are parting with the goodwill you mean to part with all that good disposition which customers entertain towards the house of business, identified by the particular name or firm, and which may induce them to continue giving their custom to it. That the name is an important part of the Goodwill of a business is obvious, when we consider that there are, at this moment, large firms which do not contain a single member of the individual names exposed.

In his judgment in this case, the Vice-Chancellor referred to some other cases which had been cited during the hearing. One of these cases appeared to be that of the business of a nurseryman, and it would seem as if the judgment of Lord Eldon there given went to prove that Goodwill carried no more than the advantage of occupying the premises of the old firm, it being considered that customers would actually go to the premises in order to transact business (in that case to look, and it might be to purchase plants, &c.,) and the same remarks and the same view would appear to have been held by Sir Thomas Plumer in regard to a retail business, where customers must actually enter the shop in order to make their purchases. But these cases are not analogous to that of a large wholesale house. In such a case the point looked at by customers is the identity of the house of business, and it would make little difference if the business were carried on in one street or another.

But it is questionable whether such a rule would even apply to the business of a nurseryman, for there are some firms well-known over England by their mere name, and by whom business is transacted very much in the same fashion as a large wholesale house.

In the case of say a newspaper or periodical, the name of the publication, rather than the name of proprietors would form the goodwill. For instance, the right to use the title "Household Words" in respect of which an action was instituted on the late Mr. Charles Dickens severing his connection with that periodical, was decreed by the court to be sold, and was bought in by Mr. Dickens for a considerable sum.

The judgment, and the remarks made by Vice-Chancellor Wood in the case of *Churton* v. *Douglas*, already mentioned, are interesting, and deal so fully with various points connected with goodwill that it may be well to give the facts of the case, which are instructive in many respects, as follows:—

John Douglas, the defendant and A. C. Churton, and G. Bankart, two of the plaintiffs, carried on business as stuff merchants, at Bradford, under the style of John Douglas and Co. The business was profitable, and the reputation of the firm stood high.

The defendant was also partner in a firm at Manchester, and desiring to take a more active part in that business, and to retire from the Bradford firm, his two partners, Churton and Bankart then arranged with Hirst, the third plaintiff, that they three should purchase the defendant's share, and take over and continue the business, and ultimately articles of agreement were signed on the 13th July, 1857.

In these articles it was agreed, among other things, that the defendant should sell, and the plaintiffs should purchase from him for the sum of £15,537 10s. 5d. all his shares, rights and interest in the trade or business then carried on by him and the plaintiffs in co-partnership at Bradford under the firm of John Douglas & Co. *and the Goodwill thereof*, and all other property, matters and things belonging or appertaining to the said partnership. The said sum of £15,537 10s. 5d. the purchase money, was the estimated amount of the defendant's share in the business as it stood in the books of the partnership, plus a bonus, or profit as it was called, of £1,500. The sale was to take effect as from 1st January, 1858. By the articles also the defendant agreed to let, and the plaintiff to take from him for seven years, from the said date at a fixed rental, the very premises in which the business had previously been carried on, and which were the defendant's property.

It appeared that unknown to the plaintiffs the defendant as early as May, 1858, entered into negotiations with some of the confidential and managing servants of the firm of which he had until recently been a partner, and having informed them that he intended to commence business as a stuff merchant in Bradford, promised them an interest in his projected business, and thus succeeded in withdrawing them from the service of the plaintiffs. The defendant then issued to the manufacturers of Bradford a circular, dated from Manchester, 15th January, 1859, in which he informed them that, not having convenience at Manchester for conducting the stuff trade, this department will be transferred to Bradford in February next, when the business will be conducted under the firm of John Douglas & Co. In February, 1859, he issued to the customers of the plaintiffs another circular, stating that he was about to open business in Bradford, in partnership with the three other gentlemen (the servants of the old partnership who had joined him) as stuff merchants, under the style of John Douglas and Co., and asking for the favour of their orders.

On the 1st February, 1859, one of these three gentlemen also issued a circular announcing that he had ceased to represent Messrs. Churton, Bankart and Hirst, and had joined Messrs. John Douglas and Co., and asked for the favour of their orders, which might be addressed to Messrs. John Douglas and Co., Bradford.

In the same month, February, 1859, the premises next door to those tenanted by the plaintiffs were placarded with the name John Douglas and Co., and large door plates were also put up with the name John Douglas and Co.

In February, 1859, the plaintiffs filed a bill setting forth the facts, and charging that the defendant's intention and design as the plaintiffs verily believe, is to represent his business as a continuation of, and in fact identical with that carried on by the firm of John Douglas and Co., dissolved in July, 1857, and his proceedings are calculated to create an impression to that effect amongst customers of the plaintiffs as well as the merchants and manufacturers of Bradford and the public generally. The bill prayed that the defendant might be restrained from resuming or carrying on the business of a stuff merchant in Bradford, or in the immediate neighbourhood of Bradford, either alone or in partnership with any other person, and either under the style of John Douglas and Co., or any other style.

The defendant deposed that previously to the execution of the articles, the plaintiffs suggested to him that he should bind himself in the articles not to resume the business of a stuff merchant at or in the neighbourhood of Bradford, but that he distinctly refused to allow such a provision to be inserted.

The defendant denied all knowledge of the letter issued to the customers in February, 1859, by one of the three servants of the old partnership who had joined him.

It was in evidence that whilst the negotiations, which resulted in the articles, were pending, the plaintiffs applied to the defendant for permission to use the style of John Douglas and Co., but that he declined to give them such permission.

Vice-Chancellor Wood, in giving judgment said a person who sells his share in a business as a going concern occupies a very different position from what he would do if the business were wound up in the ordinary way, as on a dissolution. In the latter case, he would very probably have to be at a loss in the way of bad debts, &c., which he would not have to bear in the case of a sale of his interest as in a going concern. He gets, therefore, a benefit by disposing of his share as a

going concern, and it seems to me that in that view alone the sale carried the goodwill.

Upon a sale of the Goodwill of a business, the vendor is not precluded from carrying on a precisely similar business, with all the advantage he may be able to acquire from his own industry and labour, and from the regard people may have for him, and that in a place next door, for example, to the very place where the former business was carried on. And, upon the authorities it is settled that if the purchaser wishes to prevent that step from being taken, it is his fault if he does not take care to insert provisions to that effect in the deed.

The defendant, I admit, has not contracted against setting up business, in opposition to the business sold by him to the plaintiff, but he must set it up fairly and distinctly as a separate business. and not as the old established business which he has sold.

In coming to a conclusion as to what was intended by the defendant, his whole course of conduct must be taken into consideration; and looking to the way in which he has used the name of the old firm, setting up business under that name, next door to the old established business, and then telling the world that these men, who are now his partners, have been fifteen years with him, it seems to me that the letter issued by him must have been purposely contrived for the purpose of conveying to the world the impression that it was the old firm going on with the old business, and that the defendant was conducting it with a new set of partners. That was an act which I am clearly of opinion that he was not at liberty, after parting with the goodwill, to do, and he ought to be restrained from doing it.

It was said if the court cannot restrain the defendant from setting up business again in competition with the old business, of which he has sold the goodwill, how can it prevent him from using his own name and setting up business under the name of John Douglas. I answer that the defendant is not setting up business under the name of John Douglas, but under that of John Douglas and Co. He has joined others with himself, and this brings it to the case of Rodgers v. Nowill, and to that of Johanna Maria Farina, where people went about and bought a person having a similar name, to represent the firm, so that they might introduce the name of Johanna Maria Farina, adding and Co.

How the court would deal with the case if the business had acquired reputation under that single name of John Douglas alone, it is not necessary for me to inquire, but I apprehend I should not be compelled in such a case to rely on that fact alone, as I do not here rely on the fact of the use of the name of John Douglas and Co. as being the only ingredient in the case. But if he acted in such a way as would lead customers to believe it was the old business I should hold then, as I hold now, that he was not at liberty to trade under such a misrepresentation.

An injunction was accordingly granted, restraining the defendant from resuming or carrying on the business of a stuff merchant at or in the immediate neighbourhood of Bradford, either alone or in partnership with any other person or persons whatever, under the style or firm of John Douglas and Co., or in any other manner holding out that he carried on the business of a stuff merchant, in continuation of, or in succession to the business carried on by the late firm of John Douglas and Co.

In this connection I may mention, too, that I have heard of a case which arose under similar circumstances to those referred to in the above judgment, viz., the setting up of a business in the same name as that of a business already established, the latter being that of Dent, well known for the excellence of their gloves. Tho new firm under this name was set up, I understand, in Manchester, and in consequence litigation was instituted, but with what result I do not know. Perhaps someone present may be able to say as to this.

Bearing on the same point, I have heard that many years ago, on the winding up of the business of a celebrated firm of cotton cloth printers, in London, they were offered a large sum—it is said £30,000—for the mere use of their name, but the offer was absolutely refused.

It was thought at one time that on the dissolution of a firm by the death of a partner, the goodwill belonged to the surviving partner. In the case of Hammond v. Douglas, the Lord Chancellor is reported to have said "that upon a partnership without articles, the Goodwill survives; and a sale of it cannot be compelled by the representatives of the the deceased partner; being the right of the survivor which the law gives him to carry on the trade; it is not partnership stock of which the executors can compel a division.

This case is, however, a rather old one (1800), and more recent decisions over-rule it.

In the case of Smith v. Everett, this question was raised. Mr. Everett and Mr. Smith carried on business as bankers. The bank was of old establishment, and was one of issue and deposit under the Bank Regulation Act, 7 and 8 Vict. c. 32. There were no articles of partnership, and profits were equally divided. The bank premises were the property of Mr. Everett, and had been rented from him by the partnership firm.

Mr. Smith died in July, 1856, and the business was continued by Mr. Everett alone until February, 1857. In December, 1856, some gentlemen of the name of Pinckney entered into negotiations with Mr. Everett for a sale of the business, but as any new firm would, under the act referred to, lose the privilege of issuing notes, they required as a *sine qua non* of any purchase of the business by them that Mr. Everett should enter into a temporary partnership with them. In January, 1857, an agreement was come to by which Mr. Everett, in consideration of £10,000 paid to him, agreed to enter into partnership with Messrs. Pinckney for one year. He also agreed to grant them a lease of the bank premises for seven years, with the option of becoming the purchasers during that period. Messrs. Pinckney, were to take all profits and bear all losses, and to indemnify Mr. Everett who bound himself to take an active part in the management of the bank.

Subsequently to this in March, 1857, Mr. Everett sent to two of the executors of Mr. Smith a copy balance sheet which was adopted by them, and the share of the deceased settled upon the figures shown therein, and the amount paid by Mr. Everett. In this balance sheet no credit was given to the estate of Mr. Smith for any share of the amount obtained by the sale of the business. A similar account was sent to the widow of Mr. Smith, who was also an executrix under his will, but she insisted that the testator was entitled to a moiety of the value of the goodwill, and required to be furnished with particulars of the sale by Mr. Everett. She in no way concurred in the settlement made by her two co-executors, and even dissented from the account furnished. In December, 1857, Mr. Smith filed a bill, praying a declaration that the estate of Mr. Smith was entitled on his death to one moiety of the Goodwill of the banking business of Everett and Smith, and that Mr. Everett might pay to the executors of Mr. Smith one moiety of the £10,000 with interest.

Sir John Romilly, M.R., in delivering judgment, said:—

I entertain no doubt that if two persons carry on business and one of them dies, a share of the Goodwill (where it is of any value at all) forms part of the estate of the deceased partner, and his share of it is in proportion to his share in the concern. But this must be limited by the rights of the surviving partner, and the consequences which necessarily follow from the death of one of the partners.

The master also directed an enquiry to be made as to the value of the share of the goodwill to which the representatives of the deceased partner would be entitled, and reference to this will be made hereafter.

In regard to this case, it may now be asked if the surviving

partner had continued the business permanently and alone, and an action had been commenced, praying for a share of the goodwill, whether the goodwill would have been of any value whatever ; for it is hardly likely that anyone would have purchased it in view of the intention of the surviving partner to continue the business, with all the advantages which he would inevitably have in retaining his hold on it against any stranger.

Under such circumstances it is plain that the Goodwill would practically continue to the surviving partner, without his paying anything for it to the representatives of the deceased partner. This is clearly put in Lindley vol. 2 pp. 860, 861. But the actual sale by the surviving partner of the goodwill, removed a great difficulty, and put the case on quite a different ground. The question then remaining for decision was, what proportion of the amount would the representatives of the deceased be entitled to?

In the *Manchester Guardian* of 5th March, 1879, the following appeared .—

"A novel point was raised before the Court of Appeal yesterday. Mr. Stewart, of the firm of Ogilvy, Gillanders and Co., of Liverpool, and the firm of Ogilvy, Arbuthnot and Co., of Calcutta, sought to have it established that his partners, the defendants, had not power to expel him from the firm, and that if they had, that he was entitled to a share of the goodwill of the business in the proportion in which he took profits. The first point had been decided by Mr. Justice Fry against the plaintiff, and the second point in his favour. The Master of the Rolls ruled yesterday that the goodwill of a business might be sold, but that it was never sold alone for the benefit of a retiring partner. The articles of partnership provided that everything susceptible of valuation should be valued, but in no balance prepared since the firm commenced, was there an instance of the goodwill being set down as an asset. The appeal of the defendants was therefore allowed, with costs. In this judgment Lords Justices James and Bramwell concurred."

I have not referred to the report of this case, and it would not be wise to rely too much upon the scanty information contained in the newspaper paragraph. It however appears to directly raise a point of great importance and interest to Accountants, viz., the question whether goodwill should or should not ordinarily be brought into the balance sheets of a business. It would seem as if the judges thought that the omission from the balance sheets was at least one reason why goodwill should not be allowed for to the retiring partner. On this point, the case of Hall v. Hall, 20 Beavan 139, will, I think, be found instructive. I have not had time to refer to the report, but I understand in that case the partnership articles prescribed the method in which the partnership property was to be valued to a surviving or continuing partner, but did not specifically mention that anything was to be allowed for goodwill, and it was held in that case that the retiring partner was not entitled to anything in respect of his share of the goodwill.

At this point the remarks of Lord Justice Lindley may be suitably quoted. He says (vol. 2 p. 864): "In framing articles of partnership, too great care cannot be taken to express as clearly as possible what is intended to be done with respect to goodwill ; and in order to avoid all ambiguity the word itself should be made use of."

It may occur to some that the matters so far referred to all relate to partnerships of a commercial nature, and it may be asked in what way is the goodwill of a business of a professional nature regarded? In Collyer on partnerships it is said that the goodwill of a business of a professional nature attaches to the person rather than to any other subject. Such part of it as is not personal is so small that equity will not regard it as a matter of sale, even where the partnership is without articles. It seems clear, therefore, that upon the death of one partner, the goodwill in these cases will survive to the survivor. The remarks of a judge on this point are given. He is reported to have said that where a partnership si formed between professional persons, as surgeons, and one dies, the other is not obliged to give up the business and sell the connection for the joint benefit of himself, and the estate of his deceased partner, and that when such partnerships determine, unless there be stipulations to the contrary, each must be at liberty to continue his own exertions, and where the determination is by the death of one, the right of the survivor cannot be affected. Such partnerships, he said, were very different from commercial partnerships. Mr. Collyer then says "upon the same principles Sir John Leach held in a (then) recent case, that the goodwill in a business of a personal nature is not assets in the hands of an administrator. A., a country attorney having died intestate B., a London attorney, and a friend of the family, with the consent of A's widow, took out letters of administration to A's estate. It was then agreed between B and the widow that B should carry on A's business of attorney, until A's son should come of age . at which period the latter was to take it upon himself. B accordingly conducted the business for the time agreed upon at his own expenses, paying the widow half the profits. Upon A's son afterwards becoming insolvent, one of his creditors filed a bill against B for an account of the profits of the concern during the time it was in his hands ; insisting that a sum of money was due from B to A's estate, in respect of the Goodwill of A's business, and charging maladministration on the part of B. But Sir John Leach, M.R., dismissed the bill, on the ground that the goodwill of a trade of a personal nature, as that of an attorney, was not a subject of administration.

My inference from the reported facts, brief as they are, is that the goodwill of that particular business did survive, for the widow of the deceased attorney did actually receive money for what certainly appears to have been the goodwill of the business. The case, however, is very old (1830), and whatever it does, or does not, establish, the tendency of modern decisions is undoubtedly unfavourable to the opinion that goodwill survives.

It is not at all an unknown thing for a business, or a share in a business of a professional nature, to be sold, and if one of two partners in such a business died and the survivor sold the business (suppose for example it were sold under an arrangement similar to that in the case of "Smith v. Everett," where the continuing partner entered into a temporary partnership with the purchaser) it is, I think, not at all improbable that in such a case the Court would hold the representatives of the deceased partner to be entitled to a share of the proceeds of the goodwill, as was held in the case of Smith v. Everett. If in such a case the survivor did not sell the Goodwill, but continued the business alone, it would of course immediately add to the difficulty of determining whether the representatives of the deceased could claim a Goodwill of any value.

In Lindley it is said, speaking of the business of a solicitor, that if no agreement is come to, each partner may, after a dissolution, do his best to induce the old clients to continue him as their sole solicitor. So far as I have seen, however, nothing is said as to the rights of the parties in the event of the death of a partner, nor have I been able to hear of any case which would decide the point.

It may be mentioned that the "Act to Amend the Law of Partnership, 28 and 29 Vict. c. 86, bears in one respect upon our subject. The object of this Act, as you are doubtless aware, was to make clear if indeed any doubt existed on the point, that the sharing of profits did not of itself constitute the person, so sharing, a partner in the business. .

In this Act, among other things, it was enacted that "No person receiving by way of annuity, or otherwise, a portion of the profits of any business, in consideration of the sale by him of the Goodwill of such business shall by reason only of such receipt be deemed to be a partner of, or be subject to the liabilities of the person carrying on such business," and in the event of any such trader as aforesaid being adjudged a bankrupt, or taking the benefit of any Act for the relief of

insolvent debtors, or entering into an arrangement to pay his creditors less than twenty shillings in the pound, or dying in insolvent circumstances, the vendor of a goodwill, as aforesaid, shall not be entitled to recover any such profits as aforesaid, until the clauses of the said trader for valuable consideration in money, or money's worth, have been satisfied.

It will be noticed that the vendor is apparently entitled to prove in respect of the value of the goodwill itself; the disqualification would seem to extend only to the share of profits he may be entitled to.

In a case already referred to, the Vice Chancellor is repored to have said that the vendor of a goodwill may set up business the next day, and at the next door to the old-established business, unless there be an agreement to the contrary. As this refers to an important principle, it may be suitable to make a few remarks thereon.

The purchaser of a goodwill would, it is apprehended, like if possible to secure himself against future opposition on the part of the vendor, as indeed, assuming that he pays a fair price for the business, he would be perfectly right in attempting. But in this connection it is important to remember that the courts of Law, and even more so the courts of Equity, view with extreme suspicion and disfavour all contracts made in restraint of trade, and therefore in any agreement made between the parties the purchaser should be extremely careful lest, in attempting to secure too much, he loses all. In order that a contract in restraint of trade should be good at *law*, it has at least to comply with three conditions, viz:—

(1) The restraint must be *partial*.
(2) The consideration must be *adequate*.
(3) The conditions must be *reasonable*.

Under the first head, it may be said that a contract between two persons whereby one binds himself not to employ himself or his capital in any useful undertaking in the Kingdom would be held to be void. But partial restraints, as where a person bound himself not to carry on trade within a certain city or district; where an attorney bound himself not to practise his profession within London and one hundred and fifty miles from thence; and where the restraint was not to run a coach upon a particular road; were upheld by the Court.

Under the second head, adequacy of consideration, it is not likely that much difficulty would arise. At all events, this phase of the case would have to be dealt with according to the view held by the Court, as to the value of the goodwill, compared with the amount paid for it. It is probable however that cases brought to enforce such contracts, by the purchase of a goodwill would be of a kind where the purchaser had really paid a fair price for the goodwill, and where accordingly, so far as the amount of consideration was concerned, he would have a good case.

Upon the third head, viz., that the restraint must be reasonable, a judge has said that no "better test can be applied to the question, whether reasonable or not, than by considering whether the restraint is such only as to afford a fair protection to the interests of the party in favour of whom it is given, and not so large as to interfere with the interests of the public."

Whatever restraint is larger than the necessary protection of the party can be of no benefit to either; it can only be oppressive, and if oppressive it is in the eye of the law unreasonable. Whatever is injurious to the interest of the public, is void, on the grounds of public policy. No certain precise boundary can be laid down within which the restraint would be reasonable and beyond which excessive. As illustrations, the following may be mentioned:—

Where a surgeon had restrained himself not to practise within ten miles of the plaintiff's residence, the restraint was upheld by the Court.

Where a surgeon dentist had agreed not to practise within 100 miles of a certain city, the agreement was held void on the ground of unreasonableness.

In the case already referred to of an attorney, who bound himself not to practise within London, and 150 miles from thence, the distance was held to be reasonable. It was probably considered that the nature of an attorney's business differed greatly from that of a surgeon dentist, and accordingly a distance which would have been considered unreasonable, for the protection, in one instance, was considered reasonable in another.

In the case of Harrison v. Gardner (2nd March) one or two partners in a business retired, and arbitrators were appointed to fix the amount which should be paid to the retiring partner for his interest in the goodwill. The arbitrator estimated the amount at £500, but in coming to this conclusion, they acted on a verbal understanding that the retiring parter would not again set up business in the vicinity of the old established business. The retiring partner having set up business in the same street, he was restrained by the Court from doing so on the ground of fraud.

Thus far I have dealt with cases of goodwill coming under review by the Courts, mainly for the purpose of showing what is, by authority, thus declared to be of the nature and bearing of the property covered by this word. Closely associated with the very essence of the question is that of the amount in each particular case, where some value is admitted, and the mode of arriving at such figure, otherwise the valuation thereof, and thus a matter of great importance, and also of great difficulty.

The manner in which this is done varies very much, and there can hardly be said to be any rules for guidance in such cases, it being often a mere matter of bargain, one party striving to get as much, and the other side to give as little as possible, without any of the influences which govern trade in ordinary commodities.

The personal element is an important part of the question, each case thus standing upon its merits, and being settled in accordance with facts and circumstances which might not be the same in any two instances.

In the case of Cook v. Collingridge, Lord Eldon said "if by goodwill is meant the value of the chance that the customers of partners retiring altogether, will deal with those who purchase from such retiring partners and succeed to their establishment, a goodwill of that nature cannot be valued on the same principle as where the persons retiring but not retiring altogether from trade, have also a chance, and as great a chance of carrying the old customers into their new establishment." His Lordship further said, that in order to bring the goodwill fairly to sale, intending purchasers should be informed of the last three or four years' profits, and who the customers were.

In another case, Mellersh v. Keen (No. 2), one of the partners in a firm of bankers, had become permanently incapable of performing his part of the partnership contract, and the Court decreed a dissolution. An inquiry was directed by the Court as to what, if anything, was the value of the goodwill on the date of dissolution, having regard to the circumstance that the plaintiffs (the continuing partners) were at liberty to carry on the business, and to issue notes without the name being considered part of the goodwill. The chief clerk found that £2,297 13s. 7d. was the value of the goodwill, and the basis upon which this amount was arrived at, was explained in his report which proceeded as follows:—

"I have calculated the above value on the principle that the goodwill might have been sold together with the leasehold interest in the house and premises in which the partnership business was carried on, and which formed part of the assets of the partnership, and that the purchaser of the business would have had the possession of the house and premises, and that the books of the partnership would have been handed over, and the accounts of the customers of the partnership transferred to such purchaser, and that the customers would have been informed of such transfer, and

that such goodwill was worth one year's purchase of the net annual profits of the banking business, calculated on an average of three years ending on the 31st day of December, 1858.

The Master of the Rolls (Sir John Romilly), affirmed the certificate of the Chief Clerk, and in the course of his remarks said ;—

"I think the Chief Clerk has come to a right conclusion. The difficulty of ascertaining the value of the goodwill of a business is very great; it is of a shadowy character, and a very slight thing will increase or diminish its value. I have no doubt that the evidence of the eight or nine bankers who have said it was worth nothing, may be perfectly true in one sense, that nothing could have been more easy than to have sold it in such a way, that nobody would have given a penny for it. But the Court is bound to look at it in this point of view: What it would have produced, if it had been sold in the most advantageous manner and under such circumstances, that it would have produced the largest sum for all parties interested."

The case of Smith v. Everett, already referred to, is useful, as showing not only the law as to goodwill in a partnership without articles, but also as showing the manner in which the Court settled the shares of the respective parties in the £10,000 obtained for the sale of the business. The difficulty of fairly apportioning this amount in question will be better understood when it is mentioned that the Bank Regulation Act, 7 and 8 Vict., c. 32, previously referred to, prohibits (s. 10) any new bank issuing bank notes, or any existing bank (s.s. 11 and 13) issuing more than their average amount. But it promises (s. 11) that the right of any company or partnership to continue to issue such notes, shall not be in any manner prejudiced or affected by any change which may thereafter take place in the personal composition of such company or partnership. It was decided that the representatives of the deceased partner were entitled to a share in a sum of £10,000 obtained by the surviving partner for the sale of the business. The Master of the Rolls had made a decree to the following effect:—

"I must then direct an enquiry, how much of the £10,000 was paid in respect of the share of Mr. Smith in the goodwill of the business, having regard in making such enquiry to the following facts.

(1.) That the premises in which the partnership business is carried on belonged to the defendant Mr. Everett.

(2.) That the defendant Mr. Everett was entitled to carry on the business of a banker at Salisbury, in the same premises, after the goodwill had been sold.

(3.) That there survived to Mr. Everett the sole and exclusive right of issuing notes."

By the certificate it was found, having regard to the above facts, that £2,000 was paid in respect of Mr. Smith's share in the goodwill of the business. It is not mentioned, however, upon what basis, this amount was arrived at, whether it was computed on the past profits of the business or otherwise.

So much as to instances where the value has been settled by the Court. The following are a few instances which have occurred in the ordinary course of practice:—

A well-known retail business being in the market, the manufacturers who had supplied the business with goods decided to buy the concern. The whole of the stock in trade, fittings, &c., together with the goodwill, were bought for a round sum of £9,000, and after the business was transferred, the purchasers then estimated the value of the stocks and fittings, the amount then remaining as the price paid for the goodwill appeared to be about £5,000. In this case the premises were held on a lease, and in the books of the retail business a goodwill account was opened, and the amount standing to the debit being written off by yearly transfers from the Profit and Loss Account of an amount sufficient to extinguish the item at the date of the termination of the Lease.

I think that the selling of the goodwill together with the stock, &c., is commonly done in the cases of conversions of large businesses into Limited Companies, and accordingly in such cases the amount fixed as the price of the goodwill would be merely arbitrary, and not based on the principle of so many years' purchase on average profits.

An auctioneer and estate agent, who had a large connection, required a partner, and having concluded an arrangement with a gentleman desirous of entering into business, it was stipulated, among other things, that the incoming partner should pay for a share in the goodwill of the already established business. The profits for the three years last preceeding the partnership averaged about £1,800, and the value of the goodwill was estimated at three years average on this amount, and upon this basis the incoming partner paid £2,700, being his one half share.

It may just be mentioned that in this case, had the original partner died, or retired altogether from the business, it is probable that the goodwill would have had no marketable value, as the business had acquired reputation under his name and management. The same remark, I should imagine, would apply to the business of, say a doctor. I understand it is usual where a practice is transferred, for the transferor to receive something like one year's profits for the sale of the practice, and of course the purchaser is properly installed, before the actual retirement of the original practitioner. But in the case of the death of a doctor or surgeon, it is obvious that there would be no value in the goodwill, as a sale under those circumstances would confer no advantages upon the purchaser. A case of this kind was brought under my notice a short time ago, where the widow of a deceased professional gentleman wished to sell the practice, but it was felt that nothing could be conferred by a sale as a perfect stranger would have almost the same chance as any purchaser would.

A manufacturing business was carried on within a few miles from Manchester for about ten years under an administration, the business being managed by two sons of the proprietor, who had died intestate. At the end of the ten years accounts were made up, and it was found that the profits had averaged about, say, £4,000 per annum. The two brothers, who then bought the business from the family, deemed that there would be a goodwill, which they considered would be fairly worth two years' purchase on the average amount of profits for the period during which the business had been carried on, and the sum of £8,000 was accordingly paid by them for the goodwill. This amount was settled with the approval of the accountants who acted for the estate, and was considered by them a fair and liberal price.

In the case of a certain business in London, for the purpose of transfer on the death of the proprietor, to some of the family, the goodwill had to be valued, and it was estimated as being worth one and a half year's profits; on the average for three years preceding the death.

The next is a rather peculiar case. A surveyor who had some private practice, but whose main income was from an appointment in connection with a Building Society, died, and his executors, wishing to make the most of the goodwill of his business, held out as an inducement to an intending purchaser, the probability of the purchaser being appointed his successor: this of course could not be guaranteed, and even if the appointment could be guaranteed, the intending purchaser felt that the members of the board might have their own favourite to put in as soon after as they could manage to find a fault with the purchase, which might be no difficult matter. On the whole, the business was so uncertain that the negotiation for a sale of the goodwill fell through.

A record of the sale and transfer of banking businesses, during the past twenty years would, I have no doubt, give some remarkable information as to the amounts paid in

some cases for Goodwill. I understand that when the District Bank (Manchester) took over the business of Messrs. Loyd, Entwistle & Co., about the year 1863, the amount paid for goodwill was £100.000.

From a consideration of these and other instances, I conceive that the soundest, and the most satisfactory methods of arriving at the value of goodwill is to base the purchase money on the principle of a short annuity. Of course this method is not always practicable, but wherever it can be adopted, I think it infinitely preferable to any other. The amount of the annuity, and the period over which it should extend would of course vary with circumstances. In a commercial business, the tendency would probably be to ask a comparatively large sum, payable in a comparatively short time. In a professional business, the tendency would perhaps be to extend the period. Three years, and seven years' would perhaps be about a fair time for the respective businesses. But in both, the payment should be of the nature of a proportion of the profits actually accrued to the purchaser. In this way, supposing the proportion of the profits, and the period of repayment to be settled, the vendor would get precisely the worth of what he had sold, and the purchaser would have in like manner to pay a fair price for his purchase.

At the conclusion of the lecture Mr. James Boardman, F.C.A., rose to propose a vote of thanks to Mr. Harris for his able paper, which he thought was a compilation of very valuable data. Mr. Boardman instanced a case relating to the subject which came under his experience, and before concluding said that he thought it would greatly add to the pleasure and usefulness of the lectures if it were possible to have them printed on slips, and distributed to members previously to being delivered, it was with much pleasure he moved the vote of thanks.

Mr. Edwin Storer A.C.A., in seconding the same, said he wished to add his testimony to the very able manner in which the information had been put forward in the lecture, and he felt sure it must have cost Mr. Harris much time and trouble to prepare. Mr. Storer supported what Mr. Boardman had said about having lectures printed before delivered. He then proceeded to speak of various classes of goodwill, but urged that unless a sum had been actually paid for goodwill, no account should appear under that head in a balance sheet. He thought that it would be a very desirable thing if solicitors would submit to accountants draft articles of partnership, or even wills, for in such documents grave errors often occurred through a want of the knowledge of accounts, such as was possessed by Chartered Accountants.

The motion being put to the meeting, a hearty vote of thanks was accorded.

On the request of the President

Mr. Edwin Guthrie, A.C.A. rose, and in the course of his remarks said that the subject of Goodwill was one that could be generalised but not particularised, it was a matter into which a calm and clear judgment must enter, as there were no two cases alike, and made the subject a very difficult one with which to deal. In considering goodwill, one had to bear in mind person, place, trademark or article. Speaking of the subject in regard to professional practices, he said it is necessary to estimate how much business or practice is dependent on the actual effects of the person who carried same on. The staff of a professional establishment might be able to carry on the business and make the decease of a principal their opportunity, and so upset the value of the goodwill, as far as the sale of it went. Thus there were many items to be taken into consideration ; in treating for the goodwill of a business it would be wise to stipulate that the vendor (if the principal) should remain for a period in the business, so as to thoroughly introduce the purchaser to the customers or clients. Goodwill was an awkward question in book-keeping, and it was a dangerous matter where it did occur, not to write it off by adequate depreciation. In conclusion he strongly advocated the transformation of all very large commercial concerns into Limited Liability Companies and also the insurance of the life of partners, so that businesses were not crippled by the sudden decease of a partner, and consequent realization of assets or withdrawal of capital.

Mr. M. L. Walkden raised a point that occurred in the case of Churton v. Douglas, cited by the lecturer, and amongst other remarks said that after all the only value of goodwill was what could be obtained for it when it was for disposal, hence the mistake of over-estimating such value, and allowing it to remain as an asset in the balance sheet.

Mr. Sutton asked Mr. Harris, in his reply, to re-state a point in the case Churton v. Douglas.

Mr. W. R. Clarke and Mr. Herman Moller both rose to signify their thanks to Mr. Harris for his lecture.

Mr. A. E. Piggott said he thought the subject of goodwill was a somewhat important matter, somewhat overlooked. He referred to various remarks that had already been made, and instanced a local case where two shops, wishful to prove a connection and consequent goodwill to their business, both styling themselves "The old original ———— shop" not having the legend inscribed on the front "removed from the opposite side" the other the words "never removed." He spoke of the price usual considered equivalent for *bonâ fide* insurance business goodwill, usually two years' purchase, and concluded by expressing his appreciation of the paper that had been read.

Mr. Adam Murray, F.C.A., the chairman, said that before calling upon Mr. Harris to reply, he would like to supplement what had been said about the lecture, as he had listened to it not only with pleasure, but also profited by it. He thought that the agreement for the purchase of the Goodwill *in re* Churton v. Douglas had been very loosely entered into, and he urged the importance of providing for Goodwill in Partnership Articles, in many that had come before him for perusal, the subject was hardly mentioned. He agreed with Mr. Guthrie that in large concerns the interest of partners ought to be put into a convertible shape, as by making the company a limited one. After a few other remarks he called upon Mr. Harris to reply.

Mr. Harris acknowledged the vote of thanks, and in reply to members' criticisms remarked that he thought as a rule the papers read were not so keenly criticised as they ought to be, but there would now, no doubt, be an improvement in this respect if a printed synopsis of the paper were distributed to members, so that they could better follow the speaker.

The point raised by Mr. Walkden was really a practical difficulty more than a legal question. The difficulty lay in this, that although the legal right of the representatives of the deceased in the case referred to, might be conceded, still if the surviving partner carried on the business permanently and alone, the goodwill, as far as the representation of the deceased was concerned, would be valueless, because it was not probable that under the circumstances any purchaser could be found for it, the surviving partner would really possess all that gave its value.

On the question of goodwill appearing on a balance-sheet, raised by Mr. Storer, he agreed with that gentleman in thinking that a large amount ought not to be allowed to stand under such a heading. Still it seemed as if cases of actual hardships had arisen from the entire omission of such an item from the balance sheet. Perhaps an open entry with wording to the effect that the value was to be paid in cases of retirement or dissolution would suffice. At all events there should be a clear understanding what the intentions of the partners were regarding goodwill in cases of retirement, and perhaps it would not be out of place for an auditor to ask the question, leaving the settlement to the clients themselves, but taking care that the accounts were so made up as to preclude, as far as possible, subsequent litigation.

He was obliged to Mr. Sutton for pointing out a clerical error in the statement of the terms of injunction in Churton

v. Douglas, which he then restated.

There were many aspects of the matter which remained to be dealt with, and which would almost be sufficient for another paper.

The law on the allied subject of Trade Marks, for instance, and the manner in which goodwill is treated by the authorities at Somerset House, are two of many other branches of the subject with which his notes had not dealt.

A vote of thanks to Mr. Murray for his couduct in the chair brought the proceedings to a close.

It was announced that the annual general meeting of this society, previously announced to be held on the 20th of February, had been postponed till Monday evening the 24th March, 1884, at the Memorial Hall.

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES.

INTERMEDIATE EXAMINATION, DECEMBER, 1883.

(Continued from our last issue.)

The Rights and Duties of Liquidators, Trustees, and Receivers.

BANKRUPTCY ACT, 1869.

Question 1. Is a Trustee appointed by Special or Ordinary Resolution? State the majority required for such Resolution.

Answer. A Trustee under this Act was appointed by ordinary resolution of the creditors, who had power to leave his appointment to a committee of inspection. An ordinary resolution was to be decided by a majority in value of the creditors present personally, or by proxy, at the meeting, and voting on the resolution.

Q. 2. What is the difference between a "Receiver" and a "Receiver and Manager"?

A. A Receiver was appointed by the Court after presentation of the petition, on proof of sufficient grounds. His duty was to take possession of the debtor's property, or business, or any part thereof. A Receiver and Manager not only took possession of the business, but when necessary carried it on so long as was deemed necessary for the ultimate benefit of the creditors.

Q. 3. Give a short statement of the duties of a Trustee.

A. The duties of a Trustee are:—

To manage a bankrupt's affairs under superintendence of committee of inspection, (if any).

To summon from time to time general meetings of creditors for the purpose of ascertaining their wishes.

To sue and be sued by his official title, to hold property, make contracts, enter into binding engagements, and do all necessary acts.

To pay all sums of money received by him into such bank as the creditors appoint.

Every three months to call a meeting of the creditors who were to audit his accounts, and also to keep proper books in which to enter the minutes of meetings, &c.

BANKRUPTCY ACT, 1883.

Q. 4. State under what circumstances a Trustee can be appointed under the Bankruptcy Act, 1883.

A. Where a debtor is adjudged bankrupt, or the creditors have resolved that he be so adjudged, they may, by ordinary resolution, appoint a fit person to be Trustee, or may leave his appointment to the committee of inspection, if one is appointed.

Q. 5. How must the accounts of a Trustee be audited?

A. The Trustee's accounts shall be sent not less than twice every year to the Board of Trade, or as they direct, to be audited. The accounts shall be in the prescribed form, and the Board of Trade shall cause the accounts so sent to be audited, and the Trustee shall furnish the Board with all necessary information, and a copy of the accounts, when audited, shall be filed and kept by the Board.

DUTIES OF OFFICIAL LIQUIDATORS.

Q. 1. Give a short statement of the duties of an Official Liquidator.

A. The Official Liquidator shall take into his custody, or under his control, all the property, effects, and things in action, to which the company is or appears to be entitled, and shall perform such duties in reference to the winding up of the company as may be imposed by the court. He shall also, with all convenient speed after he is appointed, proceed to make up, complete, and rectify the books of the company, and shall provide such books of account as shall be necessary, or as the Judge shall direct, including a ledger which shall contain the separate accounts of the contributories.

Q. 2. What is the difference between the powers of a Liquidator and an Official Liquidator?

A. The Official Liquidator has power *with* the sanction of the Court

To bring or defend any action, suit, or prosecution, or other legal proceeding, civil or criminal, in the name, and on behalf of, the Company.

To carry on the business of the Company so far as the same may be necessary for the beneficial winding up of the same.

To sell the real and personal estate and things in action of the Company, by public auction or private contract, with power to transfer the whole, or any part, to any person or Company.

To do all acts, and execute all deeds and other documents on behalf of the Company, and for that purpose to use the Company's seal when necessary.

To prove, rank, and draw dividends in the event of the bankruptcy of a contributory.

To draw, accept, make, and endorse any bill of exchange, or promissory note, on behalf of the Company, and to raise money upon the security of the assets of the Company when requisite.

To take out letters of administration in his official name to any deceased contributory.

To do and execute all such other things as may be necessary for winding up the affairs of the Company, and distributing the assets.

A Liquidator may, *without* the sanction of the Court, exercise all the powers given to the Official Liquidator.

Q. 3. What must an Official Liquidator do with moneys which he receives?

A. The Official Liquidator shall pay into the Bank of England to the account of the Official Liquidator of the Company, all money received by him within seven days next after such receipt, unless the judge shall otherwise direct, and in default shall pay 10/- for every hundred pounds for every seven days during which he fails to pay the money into the Bank of England, and the judge shall disallow his remuneration or salary.

Q. 4. State the proper course to be followed in order to compromise with a contributory under a compulsory winding up.

A. Where any compromise is proposed between a Company which is being wound up by the Court, and the creditors of such Company, the Court may, on the application of any creditor, or the liquidator, order a meeting of creditors to be summoned as the Court shall direct, and if a majority in number representing three-fourths in value, either personally, or present by proxy, shall agree to such compromise, it shall, if sanctioned by the Court, be binding on the contributories and also on the liquidator of the Company.

Q. 5. State how the Accounts of Receipts and Payments of the Liquidation are to be passed under the Winding-up of a Company,—(*a*) Voluntary Winding-up, (*b*) Supervisional, (*c*) Compulsory.

A. In the case of a voluntary winding-up, the liquidators shall make out an account showing the manner in which the winding-up has been conducted, and how the property of the Company has been disposed of, and shall call a general meeting of the Company for the purpose of having the accounts laid before them, and hearing any explanations that may be given by the liquidators. The meeting shall be called by advertisement in the *London Gazette* if in England, and shall be published one month before the meeting, and the time, place, and object of it must be stated. Three months after the registration of such meeting the Company shall be considered to be dissolved.

b and c. The accounts of the Official Liquidator are to be left at the judge's chambers at the times directed by the order appointing him, and at such other times as may from time to time be required by the judge, and such accounts shall, upon notice to such parties (if any), as the judge shall direct, be passed and verified in the same manner as receiver's accounts.

THE SHEFFIELD CHARTERED ACCOUNTANTS' STUDENTS' SOCIETY.

An ordinary meeting of the above society was held on the 12th March, at Hooles' Chambers, Sheffield.

The meeting was held in the form of a first meeting of creditors under the Bankruptcy Act, 1883. *In re Jason Hopps*, residing at Wort Hall, and carrying on business as a common brewer, under the style of "The Blue Ribbon Brewery Company."

The notice summoning such meeting, had been sent out under form No. 57, and had the following summary of Statement of Affairs appended:—

THE BANKRUPTCY ACT, 1883.

In the Connty Court of Yorkshire holden at Sheffield.
In Bankruptcy. No. 0001, of 1884.
Re. Jason Hopps, residing at Wort Hall, Ranmoor, in the Parish of Sheffield, in the County of York, and carrying on business at the Temperance Brewery, in Sheffield aforesaid, as a Common Brewer, under the style or firm of "The Blue Ribbon Brewery Company."

SUMMARY OF STATEMENT OF AFFAIRS.

LIABILITIES.

	£ s. d.	£ s. d.
Unsecured Creditors		42,992 0 0
Creditors fully secured	31,150 0 0	
Estimated value of Securities	46,400 0 0	
Surplus to Contra	15,250 0 0	
Creditors partly secured	7,150 0 0	
Estimated value of Securities	6,200 0 0	
		950 0 0
Other liabilities		2,020 0 0
Liabilities on Bills other than Debtors' own Acceptances	1,095 0 0	
Expected to Rank		395 0 0
		£46,357 0 0

ASSETS.

	£ s. d.	£ s. d.
Stock in Trade (held by secured Creditor)		0 0 0
ook Debts—Good		2140 0 0
„ Doubtful	3220 0 0	
„ Bad	19,500 0 0	
	22,720 0 0	
Estimated to produce		360 0 0
Cash at Bankers	300 0 0	
„ in Hand	50 0 0	
		350 0 0
Bills of Exchange—Estimated to produce		50 0 0
Household Furniture, &c.	1,150 0 0	
Other Property	15,000 0 0	
Surplus from Securities	15,250 0 0	
	34,300 0 0	
Deduct Preferential Creditors	1,753 0 0	
	£32,547 0 0	

Causes of Failure.—Decreasing Trade, Bad Debts, and failure of an Investment in a local Coal and Iron Company.

Official Receiver's Observations (if any). From the enquiries I have made of the Debtor, I see no reason to doubt his statements. Time has not permitted me to complete the posting of his books for the purpose of making a full examination of the same.

Mr. S. T. Gill, A.C.A., had been appointed Official Receiver under the name of A. Shorn; L. C. Cropper, Special Manager; Joseph Hall, debtor under the names of Jason Hopps; and H. J. Wells, debtor's solicitor.

The Official Receiver first read the Debtor's Statement of Affairs, which had been skilfully prepared on the forms provided by the Act, by Mr. Hall, and which showed a deficit of £13,810.

The ordinary members of the society had been put down in the Statement of Affairs as creditors, and for the purpose of the meeting all present were taken as having proved their debts, and lodged the same with the Official Receiver in due form.

After the reading of the Statement of Affairs, the Special Manager produced his trading account since his appointment to the date of the meeting, showing a profit of £32 8s. 4d., but he explained that against this should be taken a proportion of the licenses, &c., which he had not estimated.

The debtor's Solicitor then propounded a scheme of arrangement, with an offer of 12s. in the pound, payable 5s. in three months, 4s. in 6 months, 3s. in 12 months, from dates of approval of scheme by Court, and signed by the Debtors and other responsible party to satisfaction of a committee of inspection.

The preferential creditors and all costs to be paid by the debtor and a trustee to be appointed to realize the estate, draw the bills, settle claims, &c., at a cost of not more than £500.

In making this offer, he said, without any reduction the estate showed about 14½ per cent. in the pound, and after allowing say £5,000 for expenses, if wound up in bankruptcy, it left say 12s. in the pound. The attention of creditors was then called to a paragraph in an indenture as to some patents, which the debtor had valued in his assets at £15,000 but which in case of bankruptcy would be lost to the estate.

The clauses read thus:

> "That in the event of the said Jason Hopps being adjudicated bankrupt, the said patent shall revert to the patentee absolutely.
>
> After questioning the debtor, criticising his statement of affairs, and the trading on account of the special manager, and listening to a most eloquent pleading on the part of the Official Receiver that they should give the new Act a trial."

It was proposed by Mr. T. C. Parkin, and seconded by Mr. Bell, that "the debtor's proposal for a composition (under section 18) in satisfaction of the debts due to them from the debtor should be entertained.

An amendment proposed by Mr. J. W. Best, and seconded by Mr. J. S. Walker, that "the debtor shall be adjudicated bankrupt, and that the Official Receiver do apply to the Court to make the adjudication," was ultimately carried. Creditors to the value of £14,178, voting for the original motion, and £21,847 against.

Mr. J. W. Best was afterwards appointed trustee, and a Committee of Inspection, consisting of five members was also appointed.

The proceedings, which were taken part in by a large number of members, and which were of a lively and interesting nature throughout, closed with a vote of thanks to the chairman and to Mr. Hall, the debtor.

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